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Analysis of Policy Reform and Structural Adjustment Programs in Malawi: With Emphasis on Agriculture and Trade

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Foreword

In an attempt to address long-term imbalances between domestic demand and supply which led to expanded external deficits and slow economic growth, structural adjustment and economic reform programs have been put at the forefront of the policy agenda in many sub-Saharan African countries since the early 1980s. Domestic macroeconomic policies such as excessive Government intervention in the economy and the resulting departure from free market economic conditions were identified as a major cause of these imbalances. The gravity of the task facing African policymakers in attempting to reconcile their citizens' needs and/or expectations and what their countries can actually afford (the so called supply/demand imbalances) has made the process of economic accommodation particularly difficult. In the late 1970s, as economic difficulties escalated in sub-Saharan Africa, countries found it increasingly difficult to obtain the scarce external financial resources needed to restore economic growth. As capital became more and more limited in supply, international financial institutions (IFIs) and foreign donors made structural adjustment loans to these countries contingent on a set of macroeconomic, trade and sectoral policy reforms aimed at increasing economic growth and efficiency.

Since 1981, Malawi has been implementing a broad program of macroeconomic adjustment and structural policy reforms with financial and technical support from the World Bank, International Monetary Fund (IMF), and bilateral and multilateral donors.

With sub-Saharan Africa continuing to experience rapid population growth, and its exports still dominated by agricultural commodities with low world market values and limited growth in international demand, the topic addressed by Dr. Ng'ong'ola is timely and crucial. His examination of the subject of Malawi's structural adjustment program as it relates to the agricultural sector, including trade, labor, monetary, and investment policies is comprehensive and informative.

This study's emphasis on agriculture's elevated role in Malawi's medium-term adjustment strategy and its articulation of the sector's key role as the engine of growth and employment aptly makes an important point. Dr. Ng'ong'ola's survey of a holistic medium term strategy — to include poverty alleviation, agricultural recovery, private enterprise development, control of population growth, health, education, food security, women and gender issues and the environment — reinforces a renewed action plan aimed at putting an African country back on a path to economic recovery and real sustainable development.

This report is an important step in deepening and widening the debate and information dissemination effort on the issue of structural adjustment, trade and agricultural comparative advantage in the developing world.

This report is one in a series of studies on Africa's regional trade and agricultural comparative advantage, a joint activity of the Africa Bureau's Food Security and Productivity Unit in the Office of Sustainable Development, Productive Sector Growth and Environment Division (AFR/SD/PSGE) and the Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA).

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Davies H. Ng'ong'ola, Ph.D.

Executive Summary

Introduction

Several southern African countries are currently engaged in structural adjustment programs. Since 1981, Malawi has had a broad program of macroeconomic adjustment and structural policy reforms (SAPs) supported by financial and technical assistance from the World Bank, International Monetary Fund (IMF), and bilateral and multilateral donors. This is in response to the deterioration of the Malawi economy mainly due to sharp increases in import prices, severe droughts, and rising transport costs caused by disruption of the rail route to the sea through Mozambique.

SAPs have implications, not only for domestic agricultural production, but also for investment flows, changing agricultural comparative advantage, trade and food security, both on a national and regional basis. As part of the effort to address regional trade issues, this study analyzes the existing SAPs in Malawi to provide comparative information on liberalization efforts affecting trade and agriculture. Similar studies have been conducted for South Africa, Swaziland, Zambia, and Zimbabwe.

Macroeconomic Policies

Trade Policy

Import liberalization
Malawi has been implementing trade liberalization measures since 1985 in the form of removal of import prohibitions and price controls, and tax rationalization. Import liberalization was completed by 1992; there are no quantitative restrictions on imports and exports.

Foreign exchange allocation
By early 1991, the prior foreign exchange approval requirement had been removed for all imports except for a narrow negative list of luxury items. Commercial banks became exercising agents for foreign exchange allocation.

Import/export licensing
Import and export licensing has been simplified. A license is granted within two weeks when all formalities required have been fulfilled. A total of 28 commodities remain on the list of import licensing, and a total of 13 remain on the list of export licensing.

Government has also reduced the range of items requiring an export license. Currently, there are only 13 commodities remaining on the list of export licensing, and there are no restrictions on export of manufactured goods.

Tariff reforms
All imports to Malawi, except live animals, are subject to one or more of a variety of customs duties; the list of items is varied and long. All associates of the European Community Lome Convention of African, Caribbean, and Pacific countries, member countries of the Southern Africa Development Community (SADC), Preferential Trade Area/Common Market for Eastern and Southern Africa (PTA/COMESA), existing and former Commonwealth countries and Organization for Economic Cooperation and Development (OECD) countries qualify for most-favored-nation status. Excise duty is not chargeable on imports, but the surtax is payable on most imports at varying rates.

Customs duty for most items averages 40 percent (10 percent for items from PTA/COMESA countries), and surtax for most items averages 20 percent. Tariffs are expected to be phased out by the year 2000 as part of structural adjustment.

Export incentives
A tax allowance for exports has been introduced (12 percent on revenue for nontraditional exports); a duty drawback system has been developed and introduced; and Export Processing Zones (EPZ) have been proposed (EPZ program to start 1995); and there are no import/export monopolies, no one has exclusive monopoly to import or export a particular commodity.

Main organizations responsible for export promotion include the Malawi Export Promotion Council (MEPC) and the Malawi Chamber of Commerce and Industry (MCCI), which collaborate with other institutions such as the Malawi Investment Promotion Agency (MIPA), Malawi Industrial Research and Technology Development Center (MIRTDC), and the Reserve Bank of Malawi (RBM).

Regional cooperation
Malawi is a signatory to regional organizations such as SADC and COMESA. It is also a member and the first Chairman of COMESA, which comprises 23 member states. The private sector is expected to play a critical role in policy formulation and implementation of COMESA activities.

In November 1994, governments of Malawi and Zimbabwe signed a trade agreement to reduce trade imbalance that favored Zimbabwe. Zimbabwe is considering importing fish, textiles, rubber, tinned pineapples, juice, chili, biscuits, plastic shoes, and batteries from Malawi, among other things. Zimbabwe companies are also encouraged to go into joint ventures with their counterparts in Malawi.

Fiscal Policy

Tax reforms
A major development in the fiscal areas has been the tax reform that began in 1987. The tax base was broadened, government strengthened collection of income taxes in 1990/91, and custom duties were rationalized to minimize the protection level. Direct and indirect taxes were reduced, surtax base was expanded in 1991/92, and surtax exemptions for domestically produced goods were eliminated in 1992/93. The new government abolished the poll tax in 1994.

Government expenditure
Faced with declining revenues, government has to reduce expenditure. Expenditure restraint is tightened through freeze on filling civil service vacancies, cuts in non-wage spending ceilings, strict enforcement of expenditure monitoring procedures, and reduction of fertilizer subsidies.

A public sector management review was completed in 1991 and serves as a basis for improving management. Operational and financial status of parastatals was improved through restructuring, privatization or divestiture.

Monetary Policy

Financial intermediation
There are 21 main financial institutions in Malawi. However, the financial sector is still shallow and relatively undeveloped. Domestic resource mobilization is low, M1 and M2 in relation to gross domestic product (GDP) ranges between 8 and 19 percent. Financial institutions are being expanded.

Money supply
Interest rates were liberalized in 1987, and direct regulation of Commercial bank credit has been discontinued. The Reserve Bank Act has been revised accordingly as a result of these changes. Current commercial bank interest rate is 36 percent.

Exchange rate
Malawi has pursued a flexible exchange rate policy since the early 1980s. In February 1994, the Malawi Kwacha (MK) was floated against the U.S. dollar (US$). The value of the Kwacha dropped by 25 percent after 12 weeks of floatation (US$1 = MK7), and in mid-January 1995 the rate was approximately US$1 = MK15.3, when inflation was estimated at 35 percent.

Investment Policies

Malawi government seeks to encourage the private sector to assume the leading role in developing the economy. The thrust of government's efforts is to facilitate, rather than regulate, private investment. Investment incentives include: a company tax of 35 percent (40 percent for nonresidents); withholding tax of 5-15 percent; and general incentives comprising 40 percent allowance on new buildings and machinery, 15 percent allowance for investment in designated areas, up to 20 percent allowance for used buildings and machinery, additional 50 percent allowance for qualifying training costs, and duty free importation of heavy commercial vehicles. There are additional incentives for exporters, manufacturing in bond, EPZ, horticultural producers, and tourism.

Other measures include: freedom to invest; simplification of procedures for company formation; elimination of industrial license except for investments in such industries as government may place on a short negative list; streamlining and acceleration of land transfer procedures; establishing more foreign exchange dealers; and establishing a promotional agency—MIPA.

Food and Agricultural Sector Policies

Role and Performance of the Agricultural Sector

Agriculture is the mainstay of Malawi's economy accounting for 85 percent of employment for the total rural population, 35 percent of GDP, 80 percent of the labor force, and 90 percent of foreign exchange earnings. Growth in the estate subsector has been significantly faster than in the smallholder subsector. Agricultural GDP per capita declined during the 1973-92 period as agricultural GDP growth rate (averaging 1.96 percent) was less than the annual rural population growth rate (averaging 3 percent).

Farm Level Policies

Cash crop allocation and production quotas
Only tobacco production is restricted, through a quota system. Since 1980, burley has dominated expansion of tobacco growing because it is lucrative, but it was only grown by the estate subsector. Since 1990/91, some smallholder farmers have been allowed to grow burley tobacco.

Input subsidies/credit and distribution
Only high-analysis smallholder fertilizers (urea and di-ammonium phosphate) are currently subsidized. The subsidy is being phased out: 11 percent for 1993/94; 5 percent for 1994/95; and phased out completely (0 percent) in 1995/96. Seed subsidies will also be phased out starting 1994/95 season. Production and marketing of hybrid maize seed was liberalized in 1993/94.

Until recently, the Smallholder Agricultural Credit Administration (SACA), a government organization established in 1988, was the only agency supplying smallholders with credit through farmers clubs. SACA was converted into the Malawi Rural Finance Company (MRFC), a limited liability finance company, in October 1994. MRFC, which later became a rural bank, instituted market-determined interest rates, estimated at 40 percent in 1994. There is expansion of agricultural financial institutions. New institutions serving the sector include the Malawi Mudzi Financial Service Project (MMFSP) and the Investment and Development Bank (INDEBANK).

High yielding flint maize
There was a shift of maize research focus to develop high yielding maize varieties acceptable to farmers resulting in development of MH17 and MH18 in 1990/91.

Land reform measures
Land rents were increased—though thought to be too low—to minimize alienation of land from smallholder to estate subsector, and estates leaving land idle (32 percent of estate land was not cultivated in 1989). Government amended the Land Act to ban further transfer of customary land to estates, but with the exception of clauses that effectively minimize any positive impact.

Market Level Policies

Parastatal Trading or Marketing Boards

The Agricultural Development and Marketing Cooperation (ADMARC)
ADMARC, a parastatal, has been responsible for marketing strategic crops grown by smallholders based on floor and ceiling prices. Agricultural produce markets were liberalized in 1987 (except for cotton and tobacco), but ADMARC still plays a significant role.

A memorandum of understanding (MoU) was signed between government and ADMARC in December 1993, to enable ADMARC to conduct its social functions as buyer and seller of last resort. Divestiture of ADMARC started in 1986 and has stayed on course.

The Smallholder Farmers Fertilizer Revolving Fund of Malawi (SFFRFM)
SFFRFM, a trust corporation under government control, has been responsible for providing fertilizers required by smallholders, managing the fertilizer buffer stock, and facilitating distribution of fertilizer provided under commodity aid agreements. Input and domestic distribution of fertilizers has been liberalized since May 1993.

Output Marketing and Prices

Output markets
During the 1980s, government progressively liberalized its pricing and marketing policies. In 1987, agricultural produce markets were liberalized, except for cotton and tobacco (the marketing restriction for cotton was lifted in 1991).

In early 1994, government liberalized the marketing of all tobacco, including Asian and Western tobacco grown by smallholders. Smallholders have a choice of selling their tobacco directly to auction floors or to an intermediate buyer, in addition to ADMARC.

Output prices
Government policy has been “progressive decontrol” of prices. It sets floor and ceiling prices for smallholder maize only, all other crops have been “descheduled.”

Restrictions on commodity movement
Only maize is restricted because of its strategic importance. Until 1994, export bans had been placed on groundnuts, beans, and pulses on ad hoc basis, but they have since been removed.

Strategic Reserves and Food Security
SFFRFM operates a fertilizer buffer stock scheme of 90,000 tons. Debate is taking place on the composition and size of the scheme in the light of the liberalization of the fertilizer market.

To enhance food security at national level, government operates a strategic grain reserve (SGR) through ADMARC, which can hold up to 180,000 tons of grain.

Other Policies

Public Sector Investment Program (PSIP)
Transport and communication, agriculture, education, and health were the main investment areas in 1993/94. Generally, shares of investment in education and health have been showing a positive trend and are projected to grow, and share in transport and communication is showing a negative trend, and is projected to continue declining.

Labor Policies

Ethnic quotas
Malawi does not have policies that discriminate labor on the basis of ethnic group, region, or gender. Government would normally prefer to restrict accessibility to jobs at the middle management level and below to Malawians.

Business visas/work permits
It normally takes 4-6 months to process a business visa or work permit. Application should be made at least 3 months before the present permit expires or the applicant enters Malawi.

Wage policies
As part of World Bank/IMF conditionality for a loan, a law was passed in 1992 to review wages every 24 months or when the inflation rate has reached 20 percent, whichever comes first.

In July 1994, Malawi introduced a two-tier minimum wage system, with two broad classifications of minimum wage rates: cities (MK3.55/day); and other areas, including gazetted townships and rural areas (MK3.00/day).

Price Control

Only three products remain on the list of legally price-controlled goods that are considered necessities: fuel (petrol, diesel, and paraffin); fertilizers; and motor vehicle spare parts.

Policy Performance

Macroeconomic Policy Performance

Between 1988-1991, the targeted major macroeconomic objectives were achieved. Average rate of growth increased significantly, inflation decelerated substantially, while external account deficit reduced in line with the program objectives. The import liberalization program completed, while significant progress was made in reforming the tax system, restructuring parastatal enterprises, and expanding the role of market forces in resource allocation.

Implementation of the adjustment program between 1991 and 1993 was seriously hampered by exogenous developments—severe drought, donor suspension of nonhumantarian aid, and terms of trade deterioration—and the outbreak of political and labor unrest. These developments cause a significant fall in government revenue, a large increase in expenditure on emergency food and related social services, and the granting of substantial wage increases. Real GDP declined in 1992, inflation accelerated, and fiscal and financial accounts deteriorated significantly.

Despite the difficult political and external environment, authorities maintained the external reforms put in place during 1988-1991 and continued, though at a significantly reduced pace, the implementation of many sectoral and structural reform measures.

A revised macroeconomic framework was prepared in 1993. While virtually all measures incorporated in the 1993/94 program have been implemented, some targets were complicated by unanticipated developments that included new expenditures required to fund transitional political arrangements and institutions, and inevitable outlays related to elections. In addition, labor unrest erupted, seeking and resulting in substantial wage increases.

Sectoral Performance

Progress has been made in many areas in the implementation of sectoral reforms. In the agricultural sector, reforms continued, improving food security, smallholder incomes, and efficiency of resource use. Restrictions on smallholder production of high-value crops are gradually being lifted, and access to high yielding inputs are expanded. Private sector participation in marketing and distribution of agricultural products and imports has also expanded, including cotton and tobacco.

In 1992, business registration and land lease procedures were streamlined with the view to eliminating initial barriers to entry and enhancing investment. Expansion of domestic financial institutions into wholesale banking (e.g. INDEBANK) has increased competition in the domestic banking sector. The Post Office Savings Bank (POSB) has been restructured into a Malawi Savings Bank (MSB).

A cornerstone of the parastatal sector reform, the restructuring of ADMARC, has been largely completed. To support human resources development, the government has maintained increasing expenditure shares for health and education, as well as expanded child spacing activities, and support for institutional strengthening in the social sector.

Medium-Term Strategy

Malawi's economy remains fragile, narrowly based and lacking key social services and infrastructure. After more than a decade of stabilization and adjustment programs, the structure of the Malawi economy is still dominated by the production and export of a limited number of agricultural crops and the associated processing and distribution of these crops.

Despite the substantial progress in deregulating the economy and creating a more conducive climate for the private sector, development of the private sector and the supply response have remained below expectations, constrained in part by the monopolistic structures in production and distribution. Furthermore, the economy continues to be adversely affected by recurrent droughts and transport bottlenecks that seriously reduce its competitiveness.

Given these structural problems, the adjustment strategy is to place greater emphasis on policies and structural reforms that would promote a greater supply response, accelerate economic diversification, raise average productivity across all sectors, enhance domestic competition, and improve external competitiveness.

Agriculture, providing employment and subsistence for some 80 percent of the total population, and the main source of raw materials for the manufacturing sector, will continue to be a major source of growth. The major challenge in this sector will be to improve productivity in the estate and smallholder subsectors, while vigorously promoting diversification out of tobacco and maize production.

Growth in the manufacturing sector is expected to be generated by liberalization of the exchange system, the rationalization of the external tariff, and growth of output in the agricultural sector. Additionally, diversification of manufacturing output and increasing exports of manufactured goods will also depend on transport costs reduction and a substantial broadening of the ownership base.

The continued development of human resources and improvements in the social and physical infrastructure will also constitute critical elements of the development strategy.

Glossary of Acronyms and Abbreviations

ADMARC	Agricultural Development and Marketing Corporation
AIDS	Acquired Immune Deficiency Syndrome
ASAC	Agricultural Sector Adjustment Credit
ASAP	Agricultural Sector Assistance Program
APRU	Agricultural Policy Research Unit
CARPA	Centre for Agricultural Research and Policy Analysis
COMESA	Common Market for Eastern and Southern Africa
DEMATT	Development of Malawian Traders Trust
DEVPOL	Malawi Government Statement of Development Policy
EC	European Community
EEST	Estate Extension Service Trust
EDDRP	Entrepreneurship Development and Drought Recovery Program
EIU	Economic Intelligence Unit
EPZ	Export Processing Zone
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GoM	Government of Malawi
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for the Settlement of Investment Disputes
IDA	International Development Agency
INDEBANK	Investment and Development Bank
IDEFUND	Investment and Development Fund
IMF	International Monetary Fund
ITPAC	Industrial and Trade Policy Adjustment Credit
MMFSP	Malawi Mudzi Financial Services Project
MEDI	Malawian Entrepreneurs Development Institute
MEPC	Malawi Export Promotion Council
MESCOM	Malawi Electricity Supply Commission
MCCI	Malawi Chamber of Commerce and Industry
MDC	Malawi Development Corporation
MIGA	Multilateral Investment Guarantee Agency
MIPA	Malawi Investment Promotion Agency
MIRTDC	Malawi Industrial Research and Technology Development Center
MoALD	Ministry of Agriculture and Livestock Development

MoH	Ministry of Health
MoU	Memorandum of Understanding
MR	Malawi Railways
MRFC	Malawi Rural Finance Company
MSB	Malawi Savings Bank
NICO	National Insurance Company of Malawi
NSCM	National Seed Company of Malawi
NSO	National Statistics Office
OECD	Organization for Economic Cooperation and Development
ODA	Official Development Assistance
POSB	Post Office Savings Bank
PSIP	Public Sector Investment Program
PTA	Preferential Trade Area
RBM	Reserve Bank of Malawi
RSA	Republic of South Africa
SACA	Smallholder Agricultural Credit Administration
SADC	Southern Africa Development Community
SAL	Structural Adjustment Loan
SEDOM	Small Enterprise Development Organization
SFFRFM	Smallholder Farmers' Fertilizer Revolving Fund of Malawi
SGR	Strategic Grain Reserve
TAMA	Tobacco Association of Malawi
TCC	Tobacco Control Commission
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WICO	Wood Industries Corporation
WID	Women in Development

1. Introduction

Structural Adjustment in Perspective

Structural adjustment is a term used to describe a series of reform programs aimed at changing the structure of the economy from government controlled to private-sector led. As a strategy for development, structural adjustment has been pursued by a number of less developed countries, including Malawi. Structural adjustment is expected to create a free market economy through reform of policies that depart from free market conditions.

A typical structural adjustment process involves liberalization of trade through the removal of tariffs and import controls; the adoption of flexible exchange rate regimes as a correction of over-valued foreign exchange rates; and devaluation of local currencies and deflationary measures aimed at reducing aggregate demand, e.g., through reduction of government expenditure on goods and services. These reforms are necessary for efficient allocation of resources. The theory is that in the absence of protective measures and other free market constraints, the performance of the economy would be based on the production of goods and services under the guiding principle of comparative advantage. Then, only internationally competitive industries become viable while those under protection are justified to die natural deaths.

To complement domestic-oriented reforms, the international economic system is expected to undertake measures that are consistent with the free market conditions in an attempt to accommodate developing countries through reduction of protectionist measures by increasing the access of exports of primary commodities and manufactured goods form developing countries. The biggest drive for structural adjustment of domestic economies to free market conditions has come from multilateral lending agencies like the World Bank, the International Monetary Fund (IMF) and other international lending and banking institutions. In fact, adjustment is a requirement for obtaining financial and investment resources.

Market-oriented development implies a reduction of government involvement in production and marketing. The role assumed by the government is that of providing incentives to stimulate private sector performance by ensuring availability of investment resources through official and private sources by way of concessionary borrowing and increasing the provision of credit.

Structural adjustment with its implied free market approach, therefore, requires the existence of markets for products, capital and labor, and a guaranteed availability of the required investment resources and the necessary technology to be employed in the production of goods and services.

The Economic Setting

Area and Population

Malawi is a land-locked developing country in Central East Africa, bordered by Tanzania on the north and north-east; Mozambique on the south, south-east and south-west; and Zambia on the west. The country lies between 9^o 45’ and 17^o 16’ south of the Equator and between 33^o and 36^o east of Greenwich Meridian. Malawi is about 900km long and 80-161km wide, with a total area of 118,484km^2, of which 20 percent (24,208km^2) is covered by water. The country is administratively divided into three regions; Northern, Central and Southern Regions.

Results of the last population census in 1987 estimated Malawi’s total population at about 8 million, giving a growth rate of 3.7 percent per annum (3.3 percent excluding Mozambican refugees) during the 1977-87 intercensal period. About 89 percent of the people lived in the rural areas, while only 11 percent resided in urban areas. The population density averaged 85 persons/km^2, but showing a wide variation between Regions with the North sparsely populated and the South densely populated; densities for the North, Center and South were respectively estimated at 34, 87, and 125 persons/km^2 [Malawi Government, National Statistical Office (NSO), 1991].

Importance of Agricultural Sector

Agriculture is the mainstay of Malawi’s economy. It supports about 85 percent of the population currently residing in rural areas, accounts for 35 percent of the Gross Domestic Product (GDP)[1], involves about 80 percent of the labor force and accounts for about 90 percent of the foreign exchange earnings. The other key sectors provide the following contributions to GDP (1989): government services 15 percent, manufacturing 12 percent, and distribution 11.5 percent (World Bank, 1994a). The only major mineral activity is quarrying of limestone for the manufacture of cement. Small-scale coal production started in 1985 in the Northern Region. Several other types of mineral deposits (including asbestos, bauxite, graphite and uranium) have been confirmed present, but none of them have so far been commercially exploited (Economic Intelligence Unit 1993; Malawi Government,OPC, 1991). Annex I gives information on Malawi’s economic structure.

Background to Policy Reforms

Malawi, was able to achieve impressive growth during the first 15 years after Independence in 1964. Real GDP grew at an average rate of 5.2 percent per annum during 1967-79, well above the population growth rate. The impressive GDP growth rate was mainly attributable to

[1] Malawi’s GDP was estimated at MK10,453 million at current market prices (MK1,010.3 million at 1978 constant factor cost) in 1994 [Malawi Government, Office of the President and Cabinet (OPC), 1994]. US$1.0 = MK15.3 as at mid-January 1995.

substantial increases in output from the agricultural sector, which also fuelled the expansion of secondary sectors such as manufacturing. Total productive capacity also benefitted from the development of basic infrastructure, in particular, roads, railways and public utilities. Balance of payments and fiscal positions remained fairly stable, with current account deficit varying between 7 percent and 9 percent of the GDP and the fiscal deficit averaging less than 8 percent of the GDP (World Bank, 1994b).

Malawi's economy, however, is handicapped by a combination of problems, notably a poor resource base, high population growth rate, and landlocked position. The country suffered a major setback in 1979 and, for three years, Malawi experienced a sharp decline in growth and deterioration of the balance of payments and fiscal positions. GDP fell by a total of 9.5 percent during 1981/82, current account deficit rose to 21.2 percent of GDP in 1980 and fiscal deficit, before grants, rose to 15.5 percent in 1981. Between 1984 and 1988, real GDP rose on average by 2 percent a year while population grew by 3 percent per annum. In 1989, GDP per capita was more than 20 percent below its level a decade earlier (World Bank, 1994b).

The deterioration of the Malawi economy resulted from a combination of external shocks, namely: (a) a sharp increase in import prices; (b) severe droughts in 1980 and 1981; and (c) rising transport costs due mainly to disruption of the rail route to the sea through Mozambique. These exposed structural weaknesses in the economy, including a narrow export base, a stagnant smallholder agricultural sector, heavy import dependence in the industry and energy sectors, and inefficient public enterprises and weak public resource management capacity (Economic Intelligence Unit, 1993; World Bank, 1994b). In response, since 1981 Malawi has been implementing a broad program of macroeconomic adjustment and structural policy reform supported by financial and technical assistance from the World Bank, IMF, bilateral and multilateral donors.

The Government formulated a medium-term stabilization and structural adjustment program covering 1981/82-1985/86. The program was supported by IDA through three SALs, by IMF through successive standby agreements and special facilities, and by other donors through co-financing of the SALs and debt rescheduling in 1982 and 1983. Primary objectives of the program included: stabilizing the economy; accelerating agricultural growth; diversifying the export base; increasing efficiency of import substituting enterprises and parastatals; and improving mobilization and management of public resources. Arising from these measures, a balance of payments surplus of MK91.0 million was registered in 1984; (US$1.0=MK1.4, then) real GDP grew by over 3 percent during the 1982/83 period; the debt service ratio progressively declined to 38 percent in 1984.

The Malawi economy, however, deteriorated again in 1986, largely due to a recurrence of external shocks: further declines in export prices of tobacco and tea, additional droughts in 1986 and 1987, and complete cut off of rail lines to ports in Mozambique. In response, the Government in 1987 prepared a new strategy, which is set out in its Statement of Development Policies (DEVPOL), 1987-1996, aimed at deepening adjustment reforms. This program was supported by IDA and other donors through a Supplemental Credit to SAL III, and the Industrial and Trade Policy Adjustment Credit (ITPAC). The IMF also supported the program through a standby arrangement and an Enhanced Structural Adjustment Facility (ESAF) and by further debt rescheduling in 1988.

Although the Malawi Government undertook various stabilization and structural measures in the 1980s, the supply response to these measures was not sufficient to raise per capita incomes appreciably, nor eliminate the need for balance of payments support. This was because a number of policy induced structural constraints in the economy, particularly in the agricultural sector, remained. This led to implementation of the Agricultural Sector Adjustment Credit (ASAC), which sought to address these constraints through a combination of macroeconomic and agricultural policy reforms. The program, supported by IDA, was an integral part of the Government's medium strategy and on-going stabilization and structural adjustment program for the period 1988-91. The primary objectives of the program were to achieve sustainable growth and reduce poverty and food insecurity (World Bank, 1994b).

Growth of Malawi's agricultural sector has been primarily from the estate subsector and not from the smallholder subsector (see Performance of the Agricultural Sector, in Section 4). The Agricultural Sector Assistance Program (ASAP), a with the primary objective of increasing agricultural productivity, employment and incomes through smallholder access to agricultural inputs, output markets, cash crop production alternatives, and labor market information. ASAP is designed to assist customary landholders with small farms and rural laborers and tenants through support for GoM reform initiative. Given the breadth and complexity of the reform package, the Program has been designed in two phases initially organized around four themes (USAID, 1991a): (1) production and marketing of crops; (2) efficiency of input delivery; (3) equity in the agricultural sector; and (4) crop diversification. The grant agreement was amended on September 30, 1994. The Amendment comprises a package of agricultural policy and institutional reforms for Phase II that is divided into two themes (USAID, 1994): (a) increasing equity and efficiency through liberalizing input markets; (b) and increasing equity and efficiency through expanding market competitiveness and institutional reform.

An Agricultural Policy Research Unit (APRU) has been established at Bunda College of Agriculture, a constituent College of the University of Malawi, as one of the projects under ASAP. The Unit is a facility for research, consultancy and outreach/training, in which the University, Government and other cooperating bodies are co-explorers in the search for innovative policies and strategies geared towards the promotion and transformation of agriculture and rural development in Malawi. ASAP is a grant, and disbursements are effected upon fulfilling specified conditions. Table 1 gives the main loans/credit/grant to support the stabilization and structural adjustment program in Malawi.

Rationale and Objectives of the Study

Several Southern African countries are currently engaged in structural adjustment programs which, in addition to macroeconomic changes, include adjustment programs in the agricultural sector. These programs include external trade liberalization as well as internal market decontrol and liberalization programs in the agricultural sector. The structural adjustment programs have implications, not only for domestic agricultural production, but also for investment flows, changing agricultural comparative advantage, trade and food security, both on a national and regional basis.

Table 1: Main Loans/Credit Supporting the Stabilization and Adjustment Program in Malawi

Loan/Credit Title	Main Objectives	FY[1]	Status
SAL I (Ln-2026)	Diversify export base; encourage efficient import substitution; ensure appropriate prices and income policy, improve public sector's financial performance; strengthen GOM's economic planning and monitoring capability.	1981	Closed 8/12/82
SAL II (Cr-1427)	Diversify export base; encourage efficient import substitution; ensure adequate incentives; improve public sector's financial performance; strengthen policymaking capability.	1984	Closed 6/30/85
SAL III (Cr-1644)	Diversify export base; promote export; strengthen GOM policymaking capability; improve performance of development institutions.	1986	Closed 9/30/88
SAL III (Supplement (Cr-A-9)	Expand role of private sector in marketing of smallholder crops; improve financial performance and operational efficiency of ADMARC; strengthen food security planning capability	1987	Closed 9/30/88
ITPAC[2] (Cr-1920)	Improve policy environment for the manufacturing sector to increase efficiency of resource use and expand employment and exports	1988	Closed 6/30/93
ASAC[3] (Cr-2121)	Achieve sustainable growth; reduce poverty; and reduce food insecurity.	1990	Closed 12/31/92
ASAP[4] (NPA: 612-0239)	Increase agricultural productivity, employment, and incomes by increasing smallholder access to agricultural inputs, output markets, cash crop production alternatives, and labor market information.	1991	Ongoing

1 Fiscal year effected.
2 Industrial and Trade Policy Adjustment Credit.
3 Agricultural Sector Adjustment Credit.
4 Agricultural Sector Assistance Program.

Sources: World Bank (1994b); USAID (1994a).

As part of the effort to address regional trade issues and the links to food security, this study was carried out with the underlying objective of analyzing the existing structural adjustment programs in Malawi to provide comparative information on the progress with regard to general economic liberalization efforts as well as specific liberalization measures affecting trade and agriculture. This information will enable understanding of where Malawi stands relative to its neighbors with regard to current status of adjustment, trade barriers and regional competitiveness. Similar studies are being conducted in Mozambique, South Africa, Swaziland, Zambia and Zimbabwe as part of the Southern African Structural Adjustment Programs Analysis.

Specific objectives of the study, which were in line with the study's terms of reference, were:

1. To provide a detailed list and progress of policy, regulatory and institutional reforms;
2. To indicate plans for additional reforms to be undertaken in 1994 and 1995;
3. To provide any baseline information on bilateral trade agreements and trade with Southern and Eastern African Countries; and
4. To provide any policy pronouncements and/or specific activities mounted in support of regional trade activities.

Secondary sources (see Bibliography) and discussions with officials in relevant ministries and donors were used as the main sources of information.

Organization of the Report

Section 1 provides background information to the study covering an overview of structural adjustment; Malawi's economic setting including the importance of the agricultural sector to the economy; a background to policy reform in Malawi; and the study's rationale and objectives. Section 2 examines the macroeconomic policies including trade, fiscal and monetary policies. Section 3 covers the investment policies whereas food and agricultural sector policies are covered in Section 4. Other policies including labor policies are covered in Section 5. Section 6 presents the macroeconomic and sectoral policies for the period 1993/94-95/96 including the medium-term strategy and objectives, and Section 7 presents the summary and conclusions.

2. Macroeconomic Policies

Macroeconomic reforms focus on increasing the competitiveness of exports and the efficiency of industrial and public enterprises, as well as improving public resource utilization. To this end, reforms in the management of trade or external sector and public finances are implemented. The macroeconomic policy reforms can be divided into three major categories: trade or external sector policy; fiscal policy; and monetary policy.

Trade/External Sector Policy

Trade policy in Malawi has gone through a number of strategies since the early 1970s. Between 1973 and 1980, trade was virtually unimpeded characterized by free movement of goods and services and lower tariffs. Between 1980 and 1987, due to fiscal imbalance and balance of payments problems, the economy adopted protectionist measures through rationing of foreign exchange and higher tariffs. Since 1985, the country has been implementing trade liberalization measures to restore the open economy environment. The economy has undergone transformation from a controlled economy to a much more liberal economy [Malawi Investment Promotion Agency (MIPA), 1994].

Trade liberalization aims at improving resource allocation, expanding economy's output and accelerating economic growth. Trade liberalization in Malawi has been implemented in the form of removal of import prohibitions, price controls, and tax rationalization. Major programs to support the initiative included SAL II in 1984, SAL III in 1986, ITPAC in 1988, ASAC and Entrepreneurship Development and Drought Recovery Program (EDDRP) by the World Bank; the IMF standby arrangement in 1988, and subsequent the IMF Enhanced Structural Adjustment Facilities (MIPA, 1994).

Import Liberalization

Import policy has been formulated by the Ministry of Commerce, Industry and Tourism. The last stage of import liberalization was completed under ASAC. Currently there are no quantitative restrictions on both imports and exports. Import liberalization has not benefitted every enterprise equally. Entities which enjoyed monopoly rents found their share being eroded, forcing some of them to close down. This development had repercussions on income distribution and unemployment (MIPA, 1994).

Foreign Exchange Allocation

By early 1991, the prior foreign exchange approval requirement had been removed for all imports, except for a narrow negative list of luxury items. Allocation of foreign exchange had been devolved to the commercial banks by the end of ASAC. Thus, for the first time the commercial banks became exercising agents for foreign exchange allocation.

Export/Import Licensing

Simplification

The Ministry of Commerce, Industry and Tourism is also responsible for issuing of import and export licenses. Import and export licensing was simplified by shortening the bureaucratic line of processing the applications such that when all the formalities required have been fulfilled, a license is granted within two weeks.

Import licensing

A total of 28 goods, whatever the origin, require the authority of an Import License for their importation in Malawi:

1. Clothing and uniforms, designed for military, naval, airforce or police use;
2. Used clothing, other than the personal effects of an individual;
3. Gold including unmanufactured gold, any article or substance containing gold (not a gold coin, an art of commerce, a work of art, or of archaeological interest), and gold derived from smelting or treatment of any manufactured article containing gold;
4. Sugar;
5. Any knife;
6. Radioactive substances;
7. Game traps;
8. Mist nets for the capture of wild birds;
9. Wild animals, wild animal trophies and wild animal products (including birds and reptiles and their eggs);
10. Live fish, including the eggs and spawn thereof;
11. Bees, honey, manufactured beeswax, foundation combs, used bee-keeping accessories and appliances;
12. Beans;
13. Eggs of poultry, whether in shell, pulp or dried form;
14. Grams and dhalls;
15. Groundnuts;
16. Maize including maize grit, maize cones, hominy chops, maize offals, and processed maize meals with or without additives;
17. Oil seeds, oil meal, oil cake, offals and residues from oil seeds;
18. Irish potatoes;
19. Live poultry including day-old chicks;
20. Rice;
21. Rupoko, rupoko meal (finger millet);
22. Bananas;

23. Meat except all tinned meat, all potted meats, meat soaps, meat pasties, edible meat fats, tallow, and all cooked or cured meats other than cooked pork ham and bacon;
24. Exercise books;
25. Fertilizers;
26. Dieldrin;
27. Aldrin; and
28. Kitchen and table salt.

Countries from which goods must be licensed in every case are: Afghanistan; Bhutan; Bolivia; Columbia; Iraq; Laos, People's Democratic Republic; Lebanon; Nepal; Costa Rica; El Salvador; Guatemala; Honduras; Hungary; Iran; Panama; Paraguay; People's Republic of China; Venezuela; and Vietnam [Malawi Export Promotion Council (MEPC), 1989].

Export licensing

Malawi Government policy on export licensing, based on the Control of Goods Act (Chapter 1808) of the Laws of Malawi, is aimed at ensuring that the present licensing arrangement should be as liberal as possible and as exclusive as the need might demand from time to time. Export licensing is essentially an instrument for monitoring exportables which are of strategic importance to the nation (MEPC, 1989).

The government has reduced the range of goods requiring an export license. In 1987 and 1994, a total of 4 and 9 goods were removed from the list of export licensing respectively. Currently, there are only 13 goods remaining on the list, and consideration is being given to the removal of more goods from licensing:

1. Implements of war, atomic energy materials of strategic value, and items of strategic significance used in the production of arms and ammunition and other implements of war. These include beryllium, cobalt, columbite, germanium, lithium, nickel, nickel alloys, niobium (columbium), tantalum, thorium, titanium and uranium, and any materials containing such metals;
2. Petroleum products;
3. Wild animals, wild animal trophies, and wild animal products (including birds and reptiles and their eggs);
4. Maize including dried maize on or off the cob, crushed maize or stamp, but excluding green maize on the cob;
5. Maize meal including maize grit, maize cones, maize offals, and hominy chop;
6. Rice;
7. Seeds for planting in quantities of more than 90kg;
8. Unmanufactured tobacco;
9. Live fish including the eggs and spawn thereof;
10. Crocodile skins;
11. Gemstones, unmanufactured;

12. Tea including tea seeds; and
13. Cassava.

Tariff Reforms

Number of items subjected to tariffs

All imports to Malawi, except live animals, are subject to one or more of a variety of customs duties. Thus, the list of items subjected to tariffs is varied and long. Assessment and collection is controlled by the Department of Customs and Excise. Malawi is member-nation of General Agreement of Tariffs and Trade (GATT) and goods are classified for customs duty purposes under the standard Brussels SITC system of nomenclature, and the basis for valuation follows the recommended basis of fair value added cost (i.e., including the very high freight element of most exports to Malawi).

All associates of the European Community (EC), Lome Convention of African, Caribbean and Pacific countries (ACP), the member countries of Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA), GATT, all existing and former Commonwealth countries and the Organization for Economic Cooperation and Development (OECD) countries qualify for most-favored-nation status. The vast majority of Malawi's imports attract duty discounts at varying levels. Reimports are mostly exempt from duty but lead to reimbursement of any duty drawback claimed at the time of export.

Excise duty is not chargeable on imports, and on a small range of goods this can result in comparative advantage.

Surtax (sales tax) is payable on most imports at varying percentages of the CIF cost plus duty. Most of the basic foodstuffs, capital goods, raw materials and intermediate products for further manufacture are exempted from surtax duties to importers (MEPC, 1989).

Level of tariff rates

Tariff rates are set by Act or Order of the Minister of Finance and are subject to not-infrequent changes as part of the structural adjustment changes. The rates vary enormously with low rates applying to raw materials and industrial capital goods, and the high rates applying mainly to luxury consumables and consumer durables particularly larger motor cars and spares for them.

Import/custom duty averages 40 percent for most items and those from COMESA countries attract special lower custom rates averaging 10 percent. Most imports also attract a surtax averaging 20 percent for most items. Imports of live animals do not attract any tax.

Compression of tariff rates

The tariff rates are expected to be phased out (reduced to 0 percent) by year 2000 as part of structural adjustment program. This is likely to adversely affect government revenues of countries like Malawi which significantly depend on tariffs as a source of revenue.

Export Incentives

To promote exports, government has also introduced a tax allowance for exports. Other steps taken to improve incentives include the development and introduction of a duty drawback system based on widening the coverage of eligible goods and streamlining the procedures for refunds, and initiating a new export credit guarantee system. Unfortunately, the duty drawback system designed was administratively very complex, and thus, did not become effective until very recently.

No custom duty of any form is imposed on exports. A cess, an export levy, is however collected on certain exported goods and placed in special funds whose object is to stimulate and encourage growth of the industry concerned. For instance, a tobacco cess, hide and skins cess, tung cess are collected.

The Investment Promotion Act of 1991 provided for special incentives for export manufacturing in the proposed Export Processing Zones (EPZ) and general ones for the nontraditional exports (mainly manufacturing) (see Investment Policies, in Section 3).

Malawi Export Promotion Council
The Malawi Export Promotion Council (MEPC), is a government statutory body which was created in 1971 by Act of Parliament No.32 - The Export Promotion Act. (MEPC, 1982). Main functions of the Council include:

- to promote the export of agricultural and manufactured goods from Malawi;
- to gather, collate and make available to exporters in Malawi information and statistics of export marketing and export marketing trends;
- to coordinate the operations of statutory bodies and other persons directed towards the export of Malawi products;
- to cooperate with government departments, universities, technical colleges and persons in export market research;
- to organize and operate trade fairs inside and outside Malawi;
- to organize or assist in the organization of export promotion missions abroad;
- to assist and facilitate buying missions coming to Malawi from abroad;
- to make available to Malawi commercial firms and potential exporters from Malawi, advice and assistance in relation to international trade and all aspects of such trade;
- to publish from time to time such technical and commercial information as is deemed necessary or expedient for promotion of exports; and
- to implement government export policy.

Malawi Chamber of Commerce and Industry
The Malawi Chamber of Commerce and Industry (MCCI) is a partnership of enterprises and associations representing all sectors of the Malawi economy. The Chamber, established in 1892,

has been in the forefront of Malawi's private sector development efforts for over 100 years. MCCI, inter alia,

- monitors and advises government and the private sector community on business related issues such as import duties and tax rates, Capital Market development, and short and long term credit facilities, Export Processing Zones, export credit guarantees, pre- and post-export financing, investment incentives, etc;
- issues trade and transport documents such as the Malawi Certificate of Origin, the PTA Certificate of Origin, the Generalized System of Preferences Certificate of Origin and the Customs Transit Declaration Form; and
- organizes and operates the annual Malawi International Trade Fair, which provides a forum for local and foreign businesses to investigate business and trade opportunities, market products, share technologies and assess trade developments.

The Chamber maintains ongoing contact with organizations such as Malawi Investment Promotion Agency (MIPA), Malawi Export Promotion Council (MEPC), Malawi Industrial Research and Technology Development Center (MIRTDC), and the Reserve Bank of Malawi, as well as relevant government ministries (MCCI, 1994)

Reduction/Elimination of Import/Export Monopolies

There are no import/export monopolies. No one has an exclusive monopoly to import or export a particular commodity following government policy on trade liberalization. The liberalization program is aimed at encouraging competition in commerce.

Regional Cooperation and Recent Trade Agreement

Malawi is an active participant in regional organizations being a member of COMESA, formally known as the Preferential Trade Area (PTA), and SADC. Malawi is the current and first Chairman of COMESA after hosting the first COMESA summit in Lilongwe, December 8-9, 1994. COMESA comprises 23 member states, namely:

> Angola; Burundi; Comoro; Djibouti; Ethiopia; Eritria; Kenya; Lesotho; Madagascar; Malawi; Mauritius; Mozambique; Namibia; Rwanda; Seychelles; Somalia; South Africa; Sudan; Swaziland; Tanzania; Zambia; Zaire; and Zimbabwe (South Africa and Zaire were accepted to become members at the Lilongwe summit).

The member states are urged to deepen the process of economic integration within the region to create new investment opportunities, production and trade. The private sector is expected to play a critical role in the policy formulation process and implementation of COMESA activities (a whole chapter of the COMESA Treaty is devoted to the role of the private sector).

On 1st November 1994, the governments of Malawi and Zimbabwe signed a trade agreement to reduce the trade imbalances between the two countries which is currently in favor of Zimbabwe. To reduce the imbalance, Zimbabwe is considering the importation from Malawi of goods like fish, textiles, rubber, tinned pineapples, juice, chili, biscuits, plastic shoes and batteries among others. Zimbabwean companies will also be encouraged to go into joint ventures with their counterparts in Malawi (The Nation, 3 November, 1994).

External Routes

Although Malawi is landlocked, it is linked to overseas and regional markets by rail, bitumen (all weather) roads and air:

(a) Rail:
- via Nsanje to Mozambique port of Beira;
- via Nayuchi to Mozambique port of Nacala; and
- via Lilongwe to the Zambian border at Mchinji.

(b) Road:
- via Mwanza to Tete (Mozambique) to Zimbabwe and South Africa port of Durban;
- via Mchinji to Zambia and South Africa
- via Karonga to Mbeya (Tanzania) to Dar-es-Salaam;
- via other outlets at Chitipa, Lundazi (Zambia) and Milanje (Mozambique) as well as Lake Malawi ports.

(c): Air:
- via Kamuzu International Airport (Lilongwe) to all major cities of the world.

Map 1, on the next page, shows the ports, inland terminals and main transit routes for Malawi in Southern Africa.

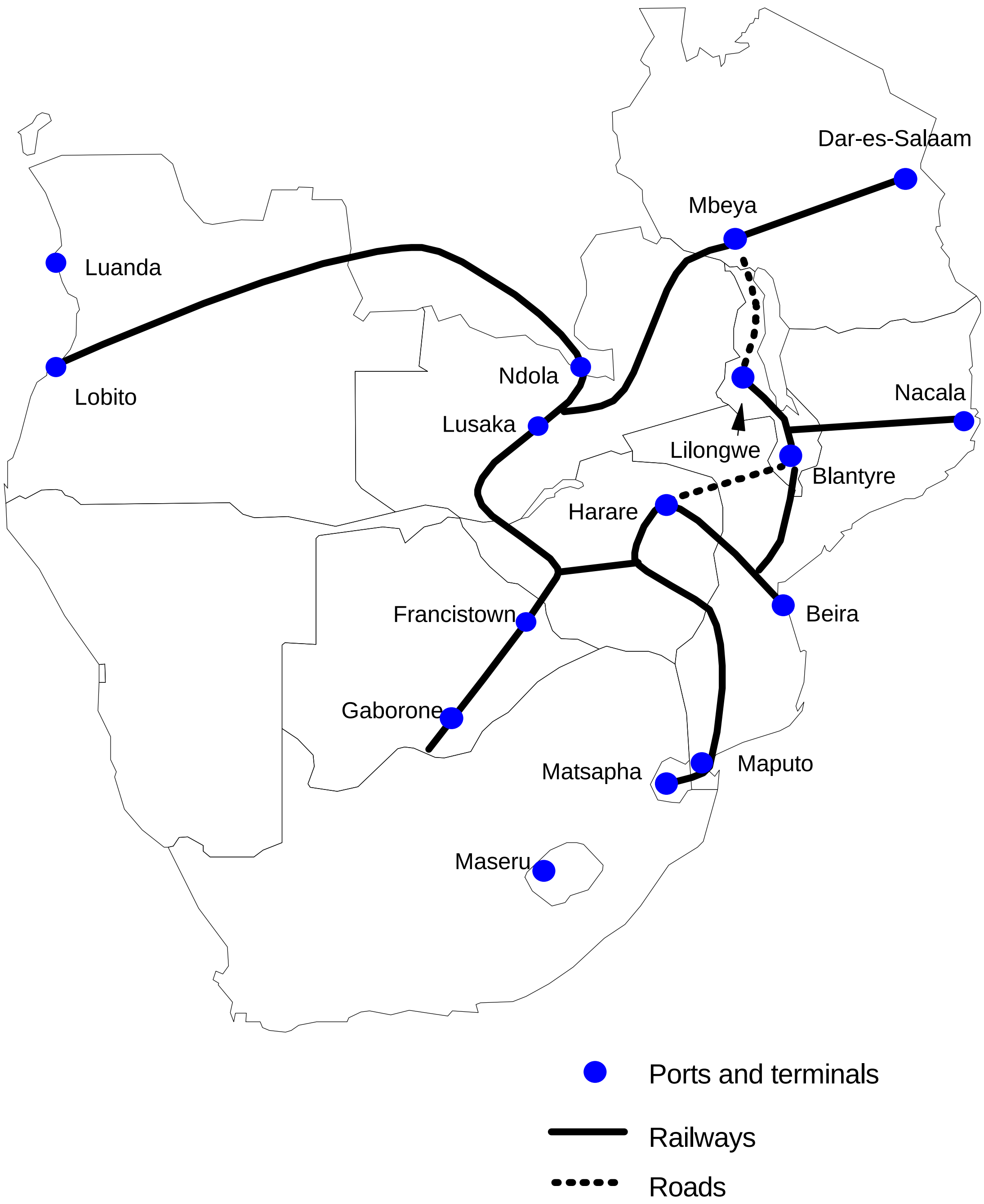
Fiscal Policy

Trade or external policy reforms are expected to be accompanied by complementary fiscal and monetary policies in the domestic economy. Objectives of the fiscal policy are to contain inflation, improve efficiency in the use of public resources, ease pressure on balance of payments, and release resources to the private sector mainly through; (a) tax reforms; and (b) reducing government expenditure.

Tax Reforms

A major development in the fiscal area has been the tax reform. This began in 1987 and was aimed at improving equity, efficiency, administration and compliance in the system. The tax base was broadened. In 1990/91, government strengthened the collection of income taxes and the

Map 1: Ports, Inland Terminals, and Main Transit Routes in Southern Africa



extension of taxation of fringe benefits. Incidence of taxation was shifted towards consumption and custom duties were rationalized with the view to minimizing the level of protection. In the case of corporation tax, a system of advance payment was introduced and the tax was extended to cover parastatals. Other measures included the reduction of direct and indirect tax rates, expansion of the surtax base in 1991/92, elimination of surtax exemptions for domestically produced goods in 1992/93, and reduction of the tax exemption period for bonded imports. The new Government brought into power by the May 17, 1994, general elections has since abolished the poll tax with effect from last year.

Government Expenditure

Faced with declining revenues resulting from external factors such as the closure of trade routes through Mozambique, Government had to cut several low priority investments (in areas such as roads and telecommunications) and some recurrent expenditures. Government was to continue reducing the budget deficit and keep it within the limits set by the available external grants and concessional loans. Government was required to maintain deficit for 1990/91 at a level satisfactory to IDA. Between 1989/90 and 1991/92, current expenditure as a proportion of GDP was reduced from 21.6 percent to 17.4 percent. Expenditure restraint was tightened through a freeze on filling civil service vacancies, cuts in non-wage spending ceilings, strict enforcement of expenditure monitoring procedures, and reduction of fertilizer subsidies (see Food and Agricultural Policies, in Section 4). A public sector management review was completed in 1991 and serves as a basis of improving economic management in the current tight fiscal environment. Measures were also taken to improve operational and financial status of commercial parastatals such as Malawi Railways, ADMARC, and Wood Industries Corporation (WICO) through restructuring, privatization or divestiture. As a result of these actions, the overall budget deficit (excluding grants) was brought down to 5.7 percent of GDP in 1991/92, from 9 percent in 1988/89 (Table 2).

Monetary Policy

Financial Intermediation in Malawi

The main financial institutions include the Reserve Bank of Malawi, National Bank, Commercial Bank of Malawi, Leasing and Finance Company, FINCOM, National Mercantile Credit, Commercial Bank of Financial Services, New Building Society, Malawi Development Corporation (MDC), Investment and Development Bank (INDEBANK), Investment and Development Fund (INDEFUND), SEDOM, National Insurance Company (NICO), Old Mutual, National Employers Mutual, Royal Insurance, Protea Assurance, Commercial Union, Munich Reinsurance of RSA Limited, Guardian Insurance and Indetrust (MIPA, 1994).

The financial market is still shallow and relatively underdeveloped. Financial assets held by the public are essentially limited to currency and deposits. The inter-bank market is virtually nonexistent and the capital market is mostly dominated by the Government local registered stock, treasury bills and private issuance of shares (MIPA, 1994).

Table 2: Malawi's Economic Indicators, 1989-93

Indicator	1989	1990	1991	1992	1993
			%		
Real GDP growth	4.1	4.8	7.8	-7.9	11.2
Agricultural growth	2.4	-0.2	12.8	-25.7	40.0
Smallholder production	0.2	-3.4	14.8	-34.4	63.5
Growth of merchandize exports	-1.3	51.4	18.7	7.1	5.3
External account deficit	13.0	7.8	12.0	12.2	10.6
Fiscal deficit (%GDP)	-9.0	-6.7	-6.5	-5.7	-12.3

* Estimates
Source: World Bank (1994b)

To promote greater competition in the banking system, INDEBANK was licensed to accept corporate deposits, and applications of foreign banks to conduct business in Malawi began to be considered. The Post Office Savings Bank (POSB) has been restructured into the Malawi Savings Bank (MSB) so as to reduce its reliance on Government. The reforms are aimed at increasing the number of institutions in the formal financial sector and increase the range of financial instruments and services supplied.

Performance of the Financial Sector

Malawi's domestic resource mobilization is low compared to some sub-Saharan countries. In Malawi, M1 and M2 in relation to GDP ranges between 8 percent and 19 percent, compared to an average of 30 percent for other less developed countries. This is due to restrictions on the expansion of domestic credit to the private sector, and limited expansion of credit by the commercial banks which has restricted growth of the banking system and reduced its potential for resource mobilization. Generally, performance of the financial system has not kept pace with the private sector requirements (MIPA, 1994).

Money Supply

Objectives of the monetary policy are to contain inflation through improving monetary management, and to enhance efficiency in the allocation of financial resources through introduction of a more market based monetary and credit system. Reforms included an improvement in the regulatory framework; a switch from direct controls on liquidity (e.g., through credit ceilings) to use of indirect instruments (e.g., changes in reserve requirements); and a move from administered interest rates to those determined by market forces and changes in the

Reserve Bank's discount rate. The bank rate, introduced in May 1990, was to be linked to an auction rate for official bills, and the first monthly auction of Reserve Bank of Malawi (RBM) bills took place in November 1990. Direct regulation of commercial bank credit has been discontinued. The Reserve Bank Act was revised to reflect these changes which enabled it to carry out the traditional central banking functions, such as open market operations and being the lender of last resort.

Exchange Rate

The Malawi Kwacha (MK), which is divided into 100 tambala, became Malawi's currency in 1971. It was pegged to the Special Drawing Rights (SDR) of the International Monetary Fund (IMF) from June 9, 1975 until January 17, 1984. The currency was then pegged to a basket of seven currencies more representative of the country's external trade comprising the US Dollar, Sterling, Rand, Deutsche Mark, Yen, French Franc and the Dutch Guilder.

The country has pursued a flexible exchange rate policy since the early 1980s, devaluing the Kwacha against the SDR by 15 percent in April 1982, and by a further 12 percent in September 1983. Switching from the SDR link to a basket of currencies resulted in a further 3 percent drop in value. Annual devaluations of between 10 percent and 20 percent occurred between 1985 and 1988 in response to balance-of-payments pressures. To pursue the goal of restoring external competitiveness and to support import liberalization, the Malawi Kwacha was devalued several times against its basket in 1990, 1991 and by 15 percent and 22 percent in March and June 1992 respectively. The 1992 devaluations restored external competitiveness to levels equivalent to 1987/88 (Economic Intelligence Unit, 1993). On 7 February 1994, a managed float exchange rate system was adopted with the Malawi Kwacha being floated against the United States Dollar. The Kwacha's rate is determined by the supply and demand at weekly wholesale auctions. After 12 weeks of flotation, the value of the Kwacha relative to the dollar effectively fell by 25 percent at US$1=MK7, and as at mid-January 1995, the rate was at about US$1=MK15.3. Inflation is currently estimated at 35 percent.

The current policy allows exporters to open foreign currency accounts, which is useful incentive of the new system. Importers are, however, adversely affected by the system. Due to perceived shortage of foreign exchange, foreign suppliers and trade financing firms are not keen to extend credit to importers. To finance imports up front has become more expensive because of the higher price of foreign exchange. Small and medium scale enterprises are probably significantly affected (MIPA, 1994).

In an import-dependent economy like that of Malawi, one medium-term effect of the foreign exchange liberalization would be an increase in the current account deficit arising from importation of raw materials, capital equipment and intermediate products for domestic industry as well as finished products for consumption. This would occur because of the instant increase in the cost of imports which are difficult to cut down. On the export side, volumes would take time to adjust because of the narrow export base largely linked to seasonal agriculture.

Annex II gives a summary of the macroeconomic policy reforms and the action taken.

Macroeconomic Policy Implementation and Performance

During the 1988-1991 period, major objectives targeted had been achieved to a large degree. The average rate of growth had increased significantly, the inflation rate had decelerated substantially, while the external current account deficit had been reduced in line with the program objectives. Regarding structural policy implementation, the import liberalization program had been completed, while significant progress had been made in the reform of the tax system, the restructuring of parastatal enterprises, and in expanding the role of market forces in resource allocation (IBRD, 1994).

Implementation of the adjustment program during the 1991/92-1992/93 period was seriously hampered by exogenous developments and the outbreak of political and labor unrest which led to substantial deviations from the program objectives and targets. Among the exogenous factors was the severe drought, which affected the whole of Southern Africa, leading to a significant fall of Government revenue, and a large increase in expenditure on emergency food and related social services. At the same time, external donors decided to suspend nonhumantarian balance of payments assistance due to concerns related to governance. Furthermore, the fiscal and external funding situation was aggravated by the outbreak of social and labor unrest, which was temporarily addressed by the granting of substantial wage increases and the initiation of a process of political reform. These factors were, in addition, exacerbated by the continued deterioration of the terms of trade, with tobacco export unit values declining by 50 percent (in US dollar terms) between 1991 and 1993.

As a result of the above developments, real GDP declined by nearly 8 percent in 1992, inflation accelerated, and the fiscal and financial accounts deteriorated significantly. The overall FY 1992/93 fiscal deficit (excluding grants) rose to nearly 16 percent of GDP (9 percent excluding drought related operations) compared to 6.3 percent in FY 1991/92 and to 5.7 percent envisaged under the program. The external current account deficit rose 14.7 percent of GDP (excluding grants) from 11.7 percent in 1991, reflecting, in part, a substantial decline in the terms of trade. Consequently, external reserves declined from the equivalent of 3 months imports at end-1991 to about one month at end-1992. The rate of inflation rose to 23.1 percent, reflecting, in part, two devaluations of the Malawi Kwacha undertaken during 1992. Despite the difficult political and external environment, the authorities maintained the external reforms put in place in during 1988-1991 and continued implementation, though at a significantly reduced pace, the implementation of many sectoral and structural reform measures (IBRD, 1994). Table 3 gives Malawi's key macroeconomic indicators for the 1989-96 period.

During April/May 1993, the authorities prepared a revised macroeconomic framework for FY 1993/94 centered on a tightening of fiscal and monetary policies and the acceleration of structural policy reforms. While virtually all measures incorporated in the 1993/94 macroeconomic program have been implemented, attainment of some of the program targets was complicated by developments that were not anticipated at the time the revised macroeconomic framework for 1993/94 was made. These developments included new expenditures required to fund transitional political arrangements and institutions, and the inevitable outlays related to forthcoming elections. In addition, after a period of restrained wage bargaining, labor unrest erupted seeking, in part, to benefit from the changed political circumstances and political liberalization, resulting in substantial wage increases. With these developments, it became necessary to again revisit the macroeconomic framework for 1993/94 (IBRD, 1994).

The revised overall deficit target (before grants) of 7.9 percent of GDP is expected to be attained in FY 1993/94. After grants, the overall deficit is projected to slightly exceed the revised program target of 3.4 percent of GDP. In response to tighter Table 3 Key macroeconomic indicators monetary policy and improvements in the supply situation, annual rate of inflation decelerated substantially to about 18 percent as of end-November 1993 compared to 34 percent at end-January 1993. Total exports declined by 21 percent in SDR terms, and the value of imports declined by 20 percent in SDR terms largely reflecting a decline in the volume of imports. Thus, the current account deficit (before grants and excluding drought-related maize imports) declined to 8.7 percent of GDP. However, the overall balance of payments registered substantial surplus equivalent to 1.5 percent of GDP as a result of increased disbursement of balance of payments assistance during the last quarter of the year.

Table 3: Malawi's Key Macroeconomic Indicators, 1989-96

	1989	1990	1991	1992	1993 Prel.	1994	1995 Projections	1996
				(Annual percentage change)				
DP growth rate (factor cost)	4.1	4.8	7.8	-7.9	11.1	1.9	4.6	4.5
PI change	15.7	11.5	8.2	23.2	22.1	19.8	6.9	5.0
				(In percent, unless otherwise specified)				
Debt service (millions of SDRs) [1]	92.0	76.7	79.4	73.3	61.9	65.5	67.7	76.7
of which interest	(31.0)	(30.4)	(28.5)	(25.9)	(22.6)	(23.3)	(23.6)	(25.2)
Debt service/exports of G & S	39.5	23.3	21.2	24.3	25.8	23.2	22.1	23.2
Debt service/XGNFS (after debt relief)	33.6	23.3	21.2	24.3	25.8	23.2	22.1	23.2
Debt service/GDP	7.4	5.6	5.0	5.6	4.3	5.0	4.8	5.0
Gross investment/GDP [2]	20.2	19.1	20.0	18.8	12.9	15.4	17.2	17.9
Private fixed investment/GDP [3]	10.7	11.3	8.7	6.7	3.2	4.6	5.2	5.9
Government fixed investment/GDP	5.2	4.8	8.0	9.4	7.4	8.7	9.8	10.0
Stockbuilding /GDP	4.3	3.0	3.3	2.7	2.2	2.2	2.1	2.0
Fixed investment/GDP	15.9	16.1	16.8	16.2	10.7	13.2	15.1	15.9
Domestic saving/GDP [4]	4.5	9.4	7.9	1.8	5.1	6.8	10.7	12.8
Government saving/GDP	2.6	4.6	3.7	--	-0.6	3.2	5.0	5.2
Private saving/GDP	1.9	4.8	4.2	1.8	5.6	3.7	5.7	7.6
National saving/GDP	6.9	11.3	8.0	0.2	4.7	4.0	7.4	9.5
Marginal domestic saving rate	-0.1	0.4	--	-0.7	0.1	0.1	0.4	0.3
Marginal national saving rate	-0.1	0.4	-0.1	-0.9	0.2	--	0.4	0.3
Government revenue/GDP/ [5]	21.8	19.5	18.8	17.6	16.5	17.9	19.0	19.2
Government expenditure/GDP [5]	29.5	25.7	24.4	26.5	23.1	23.8	22.2	21.7
Fiscal deficit excluding grants/GDP [6] 6/	-6.6	-6.7	-6.3	-9.0	-6.6	-5.9	-3.2	-2.5
Fiscal deficit including grants/GDP [6] 6/	-2.0	-4.6	-3.0	-7.0	-2.4	-0.9	-1.0	-0.3
Export volume growth (merchandise) [7]	-10.0	45.7	4.6	-1.3	-2.9	6.5	3.1	4.6
Exports/GDP	16.9	22.1	21.9	21.5	15.3	20.1	20.1	20.4
Import volume growth (merchandise) [8]	11.6	13.3	15.1	5.4	-12.5	1.4	-0.5	1.3
Imports/GDP [8]	25.5	26.4	27.1	35.2	25.4	27.9	25.8	24.6
Current account (millions of SDRs) [8]	-165.8	-	-185.5	-242.5	-180.2	-150.6	-138.8	-127.3
Current account/GDP [8]	-13.4	-7.8	-11.7	-14.7	-8.7	-11.4	-9.8	-8.4
Current account including grants/GDP [9]	-8.7	-3.4	-8.9	-12.0	-5.8	-8.4	-8.0	-6.5
External reserves (millions of SDRs)	78.5	95.5	102.7	33.4	29.2	61.3	76.4	93.8
In months of non-maize imports [8]	3.0	3.2	2.9	1.2	1.1	2.0	2.5	3.0

1 Before debt relief; excluding debt conversion; including interest on short-term debt.
2 Excluding purchase of an airplane by Air Malawi in 1991, which amounts to SDR 18.8 million.
3 Statutory bodies not included in the central government budget are included in private sector investment.
4 Saving excludes emergency grants and imports related to displaced persons.
5 Fiscal year beginning in April of the year indicated; excluding special drought-related operations in 1992/93 and 1993/94.
6 Includes statistical adjustment to revenue and expenditure figures.
7 Figures in 1989-92 are affected by substantial stocks carried over at end-1989 and, to a lesser extent, at end-1990 and end-1991.
8 Excluding purchase of the airplane in 1991 and drought-related maize in 1992-93.
Excluding purchase of the airplane in 1991; including drought-related maize imports and financing (which includes drought-related IDA) for 1992-93.

Source: International Bank for Reconstruction and Development (1994)

3. Investment Policies

Introduction

The Malawi Government seeks to encourage the private sector to assume the leading role in developing the national economy. The thrust of Government's efforts is to facilitate, rather than to regulate, private investment. The Industrial Policy states that (Malawi Government, OPC, 1987).

> "The Government will be concerned with promoting, growth, efficiency, stability, and equity by means of a range of instruments including the provision of infrastructure, the utilization of domestic and international institutional arrangements, and a mixture of incentives and control."

To create a more conducive investment climate, the Government will continue to pursue stable macroeconomic policies by exercising fiscal and monetary discipline and maintaining a realistic exchange rate. Specific measures to deregulate the private sector and create new investment opportunities have already been enacted, elimination of price controls, termination of import restrictions and the accompanying need for import licenses, divestiture of state-owned companies and steps to rectify the external transport situation (Malawi Government, OPC, Undated).

Investment Policies

To further encourage and assist private investment, the Government announced/implemented initiatives related to: freedom to invest; industrial licensing and company formation; transfer of land; taxes and duties; external transport routes; availability of foreign exchange; access to local financing; labor practices; encouragement of small-scale and medium-scale enterprises; encouragement of export-oriented investments; investment assistance and promotion; investment protection; and access to international arbitration (Malawi Government, OPC, Undated).

Freedom to Invest

Investors, both domestic and foreign, may invest in any sector of the economy, with no restriction on ownership. Thus, there are no targeted sectoral restrictions. Additionally, there are no restrictions on the size of investment (hence, no minimum investment levels), the source of funds or whether products are destined for export or the domestic market. Domestic investors are encouraged to join with foreign investors to pursue investment opportunities in Malawi.

Industrial Licensing and Company Formation

The industrial license been eliminated, except for investments in such industries as the government may place on a short negative list. Procedures for company formation and business registration is simplified to prompt establishment. Investors are only be required to provide the Registrar of Companies with the basic information on proposed business activities.

Transfer of Land

Government has streamlined and accelerate land transfer procedures so as to reduce the time required to complete land transfer process from the date of application to the date of lease offer, transfer or sublease to within 90 days. In addition, industrial sites are provided with basic facilities—electricity, water, sewerage and transport infrastructure. However, there is need to provide serviced land to investors and the necessary framework to be put in place to enable private developers to develop industrial sites, including sub-leasing to investors (MIPA, 1994).

Taxes and Duties

Government is committed to continue the process of reducing rates of taxes and duties, and direct and indirect tax rates have been reduced have been reduced as part of the tax reform (see Fiscal Policies, in Section 2).

External Transport Routes

Government is taking a number of initiatives to improve access to efficient and secure transport routes, including the expansion of domestic transportation network, and the rehabilitation of the Nacala Railway Line.

Availability of Foreign Exchange

Government recognizes that availability of foreign exchange is critical to investors. It will, thus, ensure that foreign exchange is available for business transactions and remittances. There are currently a total of 11 authorized foreign exchange dealers.[2]

Access to Local Financing

Government has embarked on a reform program to modernize and liberalize the financial sector. With the enactment of the Capital Market Development Act, 1990, both foreign and domestic investors will have greater access to sources of local financing. Government is committed to foster competition in the banking sector, including establishment of new banking institutions.

[2] 7 out of the 11 dealers are foreign exchange bureaux—CLC Forex Bureau, Lloyd Forex Bureau, Fara Forex Bureau, Globe Forex Bureau, Interocean Bureau de Change, The Money Bureau, and FRX Exchang e Bureau; and the rest are commercial banks—Commercial Bank of Malawi, National Bank of Malawi , Finance Corporation of Malawi, and INDEFINANCE .

Labor Practices

Government will not interfere in employers choice of work force. Additionally, government recognizes that investments may require expertise not available in Malawi, thus, will make Temporary Employment Permits readily available for key positions in these investments.

Encouragement of Small-scale and Medium-scale Enterprises

Malawi's small-scale and medium-scale enterprises hold great potential for rapid economic growth and employment creation. Government is therefore dedicated to continuing with various programs to assist these enterprises, including entrepreneurship training, technical and financial assistance.

Encouragement of Export-oriented Investments
To encourage export-oriented investment, government will offer incentives competitive to those found in other countries. These include: (a) an income tax allowance based on export sales of nontraditional products; and (b) rebates of import duties, surtaxes and local taxes on most inputs used in production for exports (see investment incentives for export, under Investment Policies, in Section 3).

Investment Assistance and Promotion
In order to increase awareness of the investment opportunities in Malawi, as well as provide greater assistance to existing and potential investors, the Government established the Malawi Investment Promotion Agency (MIPA) through the Investment Promotion Act of 1991 (Act of Parliament No. 28). MIPA is given sufficient authority and operational autonomy to fulfill its mandate of promoting investment and assisting investors. Paramount is MIPA's responsibility to promote, attract, encourage and facilitate local and foreign investment in Malawi by:

- facilitating all aspects of the investment process in Malawi including, but not limited to, the timely receipt of government approvals, permits, licenses, registrations and the fulfillment of any other regulatory authorizations;
- providing courtesy services to investors;
- providing information relating to investment in Malawi;
- identifying partners in or outside Malawi for joint venture business opportunities;
- working with local and international financial institutions for the benefit of investors;
- encouraging the existing investors to expand or start new investments;
- developing a favorable investment image of Malawi regionally and outside the region;
- undertaking investment promotion missions;
- recommending to government changes in the statutory and administrative framework relevant to the investment climate; and

- consulting with private sector entities so that better informed recommendations concerning the investment climate can be made.

Other institutions providing investment support and promoting business include the Malawi Development Corporation (MDC), the Electricity Supply Commission of Malawi (ESCOM), Post and Telecommunications, Malawi Chamber of Commerce and Industry (MCCI), Malawi Export Promotion Council (MEPC), Malawi Bureau of Standards (MBS), Small Enterprise Development Organization of Malawi (SEDOM), Development of Malawian Traders Trust (DEMATT), and the Malawian Entrepreneurs Development Institute (MEDI).

Investment Protection
Government recognizes that security of assets is of primary importance to investors. The Malawi Constitution and existing laws and regulations provide assurance that investors' assets are protected. In addition, Malawi is a member of the Multilateral Investment Guarantee Agency (MIGA), and is an eligible country under a number of other investment insurance programs.

Access to International Arbitration
Parties to disputes may agree to pursue arbitration and choose an appropriate forum, including international arbitration. The Government is a member of the International Center for the Settlement of Investment Disputes (ICSID)

Investment Incentives

The following are the investment incentives in Malawi (MIPA, 1994):

Company Tax:	40 % non-residents
	35 % for residents
Withholding Tax:	5-15 %

Incentive Schemes

General Incentives:

(a) 40 percent allowance on new buildings and machinery;
(b) additional 15 percent allowance for investments in designated areas;
(c) up to 20 percent allowance for used buildings and machinery;
(d) an additional 50 percent allowance for qualifying training costs;
(e) allowance for manufacturing companies to deduct all operating expenses incurred up to 18 months prior to the start of operation;

(f) indefinite loss carry forward to enable companies to take full advantage of their tax allowance;
(g) duty free importation of heavy commercial vehicles; and

(h) provision for duty remission on importation of capital equipment.

Additional Incentives

Exporters:

(a) 12 percent export tax allowance on export revenues for nontraditional exports;
(b) 25 percent transport tax allowance for nontraditional exporters for international transport;
(c) no value-added tax;
(d) duty drawback scheme on imports of raw materials and packaging materials;
(e) 90 percent retention of forex for traditional exporters and 100 percent for nontraditional exporters; and
(f) operation of foreign currency accounts.

Manufacturing in Bond
In addition to the above,

(a) duty free importation of raw materials and capital equipment;
(b) no excise taxes on raw materials and packaging materials made in Malawi;

Export Processing Zones
In addition to the above,

(a) corporate tax rate of 15 percent; and
(b) no withholding tax on dividends;

Horticultural Producers:

(a) 100 percent duty free importation of raw materials and equipment for those exclusively engaged in horticultural production for export.

Tourism:

(a) importation of hotel implements at concessionary rate of duty.

According to MIPA (1994), Malawi's incentive structure is competitive in relation to those of the regional countries, except for the EPZ incentives where the legal and administration framework is being worked out. Malawi, however, can do better by offering other incentives to develop targeted sectors such as small and medium scale enterprises. Annex II gives a summary of the investment policies and the action taken.

4. Food and Agricultural Sector Policies

Structure of the Agricultural Sector

Malawi's agricultural sector is composed of two main groups of farms: smallholders and estates. Estates are those farms which occupy leasehold or freehold land. In order to register as an estate, it is necessary to have a minimum of 10 ha. In 1988, there were a total of 4,100 estates (74 percent of which were burley estates) covering about 0.605 million ha. This subsector is the nation's principal foreign exchange earner; while it contributes only about 20 percent of total national agricultural production, it provides about 80 percent of agricultural exports mainly from tobacco, sugar and tea and to a lesser extent from tung oil, coffee and macadamia nuts.

Smallholders have customary use-rights to the land they cultivate, 79 percent of the total land area of 9.41 million ha is under customary tenure. The smallholder subsector comprises an estimated 1.8 million smallholder farm families cultivating about 4.4 million ha and producing about 80 percent of Malawi's food and 10 percent of its exports. About 25 percent of the smallholders cultivate less than 0.5 ha; 55 percent less than 1.0 ha; 31 percent between 1.0 and 2.0 ha; and 14 percent more than 2.0 ha (World Bank, 1994a). However, it should be noted that there is a considerable variation within each of the two subsectors, and that differences between them are becoming increasingly blurred.

Malawi's Agricultural Development Strategy

The objective of Malawi's agricultural development are outlined in the DEVPOL 1987-1996. They are: (1) improving and maintaining food self-sufficiency; (2) expanding and diversifying agricultural exports, while conserving natural resources; (3) raising farm incomes and promoting economic growth; and improving social welfare (Malawi Government, OPC, 1987).

The newly elected Government is pursuing these objectives within a broad framework of promoting private sector involvement; improving incentives through liberalizing pricing and marketing; increasing producer prices for export crops; and rehabilitating rural infrastructure. The MoALD draft Agricultural and Livestock Development Strategy and Action Plan outlines four main thrusts to pursuing the above objectives:

- increase productivity of food crop production, and widen range of food crops grown and marketed;
- smallholders will be given the opportunity to grow burley tobacco;

- farmers in general, large farms and estates in particular, will be encouraged to diversify their activities to broaden the base, and increase the output of export and high value-added crops; and
- expanding livestock activities and integrating them into existing farming systems.

The Government's draft strategy gives emphasis to key commodities, complemented by sector-wide strategies aimed at providing the necessary policy, legislative and institutional framework, and supported by continuous generation and dissemination of appropriate and profitable technologies, the provision of necessary inputs and services, and the improvement of human capital and physical infrastructure (Malawi Government, MoALD, 1994).

Performance of the Agricultural Sector

Agriculture has been a contributor to economic growth and macroeconomic stability in Malawi. Since Independence in 1964, growth in agricultural GDP has varied, averaging about 5 percent during the 1970s, 1 percent during the early 1980s, and 4.1 percent during 1987-91. During 1973-92, annual growth in agricultural GDP has averaged about 1.96 percent. During the same period the rural population has grown by more than 3 percent per year, indicating a decline in agricultural GDP per capita.

Throughout the 1970s, 1980s and early 1990s, growth in the estate subsector has been significantly faster than in the smallholder subsector, except in four years (1976, 1978, 1984 and 1991). The share of estate subsector in total agricultural GDP rose steadily from 13 percent in 1973 to 35 percent in 1992. During the past 20 years, 60 percent of agricultural growth has been in the estate subsector. Smallholder subsectoral growth rates have been low, despite government's policy emphasis on smallholder development (World Bank, 1994a). Table 4 gives annual growth rates of agricultural GDP by subsector from 1973 to 1992.

Table 4: Annual Agricultural GDP Growth Rates, 1973-92

Sector	**1973-1980**	**1973-1992**	**1980-1987**	**1980-1992**
	%			
Estate subsector	8.64	5.89	4.21	5.65
Smallholder subsector	3.99	0.90	1.96	0.67
Agricultural sector	4.72	1.96	2.41	1.90

Source: World Bank (1993).

Food and Agricultural Policies and their Status

This section describes the food and agricultural policies for Malawi and their status. The policies are divided into: farm level policies; and market level policies.

Farm Level Policies

These set of policies are further divided into: cash crop allocation and production quotas; input subsidies/credit; investment grants; and deficiency payments, production subsidies and compulsory food requisition.

Cash Crop Allocation and Production Quotas
Only tobacco production is restricted by the Government, through a quota system. Tobacco is the dominant traditional cash crop for Malawi, accounting for over 30 percent of the GDP and nearly 70 percent of the total domestic export earnings. Two separate mechanisms are employed for registration of tobacco licenses and production quotas on yearly basis: (1) ADMARC annually registers and issues licenses to smallholder tobacco growers for dark-fired, sun-air cured and oriental tobacco; and (2) MoALD annually issues licenses and production quotas to estates against annual production target issued by Tobacco Exporters Association of Malawi (TEAM) to the Tobacco Control Commission (TCC). (See Food and Agricultural Policies and their Status, in Section 4, for details on TCC).

Since 1980, burley has dominated the expansion of tobacco growing in Malawi. The area under burley in 1992 was estimated at over 130,000 ha, representing about 5.5 percent of Malawi's arable land, the highest intensity of tobacco cultivation for any country. Production during the was estimated at 99,224 tonnes , accounting for nearly 72 percent of the total production which was estimated at 137,884.

Before 1990/91, flue-cured and burley quotas were allocated only to estate farms where tenant farmers were usually utilized to produce the crop. In 1990, a Smallholder Burley Scheme was initiated that allocated licenses for production of 1,500 tons of burley for smallholders on customary land. The burley allocation was increased to 3,000 tons in 1991, and to 7,000 tons in 1992. The objective of the scheme is to allow smallholders access to a broader means of increasing their incomes, in order to reduce poverty and, simultaneously, provide farmers with a means of financing the intensification of their maize production. Both ASAC and ASAP had conditionalities to effect this.

The smallholder burley program has been a success. Smallholders have demonstrated their ability to produce high quality tobacco at low cost. Burley which ADMARC sold on behalf smallholders in 1990/91 fetched an average price of MK7.29/kg, compared with a national average auction floor price of MK6.87/kg. In 1991/92, the first year smallholder clubs were allowed to market directly to the auction floor, they received an average price of MK6.19/kg compared with a national average of MK6.52/kg. In 1992/93, they received MK5.28/kg, while the national average was MK4.89 (World Bank, 1994b).

However, there are a number of issues related to the growth of smallholder burley production: the current quota system is inequitable and inefficient as it excludes very efficient producers; MoALD staff is already thin and may not adequately manage the anticipated growth of the smallholder burley production; there were no data available to prove that the licensed smallholder producers had less than 1.0 ha (for targeting smallhollders)(World Bank, 1994b).

Input Subsidies/Credit and Distribution

Farm input subsidies and distribution. Fertilizers and hybrid maize seed for the smallholder subsector have been subsidized the past years, but Government policy has been to phase out the subsidies. Government commitments under ASAC were that the overall subsidy rate on fertilizers was not to exceed 30 percent in 1990/91, 25 percent in 1991/92, and 20 percent in 1992/93, while total subvention as a proportion of total government expenditure was not to exceed 2 percent in 1990/91, 1.6 percent in 1991/92, and 1.3 percent in 1992/93. Government has been meeting these targets, but for 1992/93 season, facing more adverse circumstances than anticipated, it negotiated an allocation of MK25 million for the fertilizer subvention, an estimated 1.4 percent of government expenditure, slightly above the target previously set. Currently, only the high-analysis fertilizers [urea and di-ammonium phosphate (DAP)] for the smallholder subsector are being subsidized, but the subsidy is being phased out; 1993/94 subsidy rate for the fertilizers was 11 percent, planned rate for 1994/95 is 5 percent, and subsidy will be phased out completely in 1995/96 (World Bank, 1994a). Subsidies for low-analysis fertilizers (e.g. CAN) were completely phased out. Removal of the fertilizer subsidies has been effected through implementation of the Fertilizer Subsidy Removal Program (FSRP)

Government has also agreed in principle to eliminate all subsidies on hybrid maize seed, and this is likely to be effected this season (1994/95). Only the core poor will be provided free seed and fertilizer under the Drought Recovery Program this agricultural season. The Agricultural Development and Marketing Corporation (ADMARC) is the main organization distributing fertilizer and hybrid, composite and improved local varieties of seed to smallholders.

Inputs for the estate subsector are not subsidized and this has contributed to the leakage of some of the subsidized fertilizer intended for the smallholder subsector (8 percent-10 percent) to the estate subsector. Unsubsidized fertilizer for the estate subsector is supplied by private companies through direct imports or from a limited number of private local companies, OPTICHEM and Norsk Hydro. The supply of seeds and agrochemicals to estates and smallholders originates in the private sector. The National Seed Company of Malawi (NSCM), in which Cargill International has a majority share, is the main supplier of certified hybrid tobacco and maize seed, 90 percent of which are then distributed by ADMARC, with the remainder being distributed by private retailers. A second private firm, Lever Brothers, entered the supply of hybrid seed in 1991/92. The Government liberalized the production and marketing of hybrid maize seeds in 1993/94, however, the market remains far from competitive. A number of private companies also supply imported pesticides and herbicides, which Malawi does not produce.

Agricultural credit. The Smallholder Agricultural Credit Administration (SACA), a government organization established in the MoALD in 1988, was the only agency involved in supplying smallholders with credit through farmers' clubs. The loan recovery performance was among the highest in the third world, averaging 90 percent partly because of the strict enforcement of 100 percent recovery of the group's previous loan as a condition to a new loan. However, in 1991/92 , SACA loans were MK90.0 million and recoveries dropped to 25 percent. In 1992/93, loan levels expanded to MK 144.3 million and loan recoveries were only 16 percent (World Bank, 1994b). As a result, Malawi is currently facing severe smallholder credit recovery problem. Factors identified to have contributed to the problem include: the breakdown in recovery system; credit design and administration; low gross margins; political dispensation; the 1992/93 drought; and the delinkage of extension and credit activities (Center for Social Research, 1994).

The Malawi Rural Finance Company (MRFC). To overcome some of the above credit problems, SACA has now been converted into the MRFC, a limited liability finance company, thereby eliminating heavy dependence on Government support and accelerating privatization of the rural credit system. MRFC started its operations on October 1, 1994. The second phase will be to privatize and transform the company into a rural bank. MRFC has a line of credit component to finance mostly short-term credit over a three-year period. The main market niche is smallholder farmers (through farmers' clubs), small estates (up to 30 ha), and micro-, small- and medium-scale enterprises (MSEMEs) with average annual turnover of up to MK500,000. Repayment of working capital and seasonal loans ranges from 6-18 months. Repayment for loans for investment purposes are spread over a maximum of 60 months, including grace period.

SACA has been charging the smallholders lower interest rates than the market rates, thereby subsidizing the smallholder credit rates. The MRFC, on the other hand, will institute market-determined interest rates to ensure availability of credit and adequate profitability for the financial intermediary. Currently, MRFC charges an interest rate of 40 percent. Interest rates were decontrolled in 1987 to make it possible for banks to cover the full costs of their rural operations.

Conversion of SACA into a private company, however, is unlikely to improve access to financial services of resource-poor farmers. Government must help them form savings and credit groups and provide incentives (such as guarantees) to financial institutions to lend to such groups at commercial rates. Government and IFAD have finalized the design of a Malawi Mudzi Financial Services Project (MMFSP) which will be financing developmental costs related to group formation and training. The MRFC will manage a window designed for this group and it will be appropriately compensated, while being insulated from the inherent risk of lending to resource-poor households (World Bank, 1994b).

The Investment and Development Bank (INDEBANK) has recently been issued a banking license. It is expected that this will increase competition in financial markets and facilitate development of linkages between formal and informal institutions. Rural traders and input suppliers could forge the latter through borrowing and on-lending from the formal sector.

Other sources of credit available to the smallholder subsector including the following: Smallholder Crop Authorities which provide funds to finance inputs for their particular crops (coffee, tea, sugar and tobacco); Small Enterprise Development Organization (SEDOM) which provide loans for development of smallscale rural industries and agro-industries; Malawi Union of Savings and Credit Cooperatives (MUSCCO); and informal sources (such as local money lenders, relatives and friends) which provided about 73 percent of the total credit amount of credit in 1988 (Chipeta et. al., 1992). Smallholder farmers have not been receiving credit from the commercial banks.

The main financial institutions providing credit to the estate subsector are the two commercial banks; the National Bank of Malawi, and the Commercial Bank of Malawi, which charge an interest of 36 percent. They are mainly concerned with seasonal credit although they also provide medium- and long-term credit to customers with proven track records. INDEBANK also provides medium- and long-term loans to agricultural estates and agro-processing enterprises. The Investment and Development Fund (INDEFUND), a subsidiary of INDEBANK, provides medium-term investment (i.e., for projects from MK75,000-MK250,000) credit for agricultural production and agro-processing.

Investment Grants
ASAP is one of the investment grants by USAID in the agricultural sector (see 1.2 above), to the tune of US$ 20 million. The Program has the following components: Agricultural Policy Research Unit; Agroforestry Extension; Food Security; Environmental Monitoring Unit; Studies, Implementation and Management; and Monitoring, Evaluation and Audit (USAID, 1991a). As noted earlier, disbursements from the grant are effected after meeting specified conditions.

The Japanese Government also provides grants in form of fertilizer, chemicals, sprayers and other inputs, but these are sold to farmers by ADMARC. There are no grants per se for smallholders.

Deficiency Payments, Production Subsidies and Compulsory Food Requisition
Malawi has no policies on deficiency payments, production subsidies and compulsory food requisition in the agricultural sector.

<u>High Yielding Flint Maize</u>. One of ASAC's conditionalities was to shift maize research focus and implement a 5-year action plan to develop high yielding maize varieties acceptable to farmers. This exceeded expectations. Two hard endosperm (or flint) high yielding maize varieties (MH17 and MH18) were developed by MoALD and released in 1990/91. Partly as a result of releasing these varieties, hybrid maize has substituted for local maize in production since 1990/91.

<u>Land Reform Measures</u>. Over the past years, the Government has permitted the estate subsector to expand rapidly, leasing large areas of what has been customary land at low rentals. Often the new estate owners did not have the management or financial resources to exploit their holdings. In 1989, an estimated 32 percent of leasehold land was not cultivated (cropped or under short-term fallow), although half of this was cultivable (World Bank, 1994a). The result has, therefore, been that in some areas increasing pressure on the remaining customary land exists next to

heavily underutilized estate lands. Land available to smallholder households, especially in the Southern and Central Regions, is decreasing as high population growth rates and transfers of land to the estate subsector continue.

Estate leases have precise covenants on such matters as land utilization, husbandry practices, soil conservation, and tree planting. One concern in lease compliance has been enforcing the standard covenant that 10 percent of the hectarage should be devoted to forestry. This is one important strand in the priority policy of trying to reverse the deforestation of Malawi. However, the resources available to Government to police the covenants are limited. Another strand is to encourage one of the major consumers of fuelwood, tobacco estates, to improve the efficiency with which they consume the resource.

ASAC attempted to address the above issues through the following conditionalities: the Government to amend the Land Act to ban further transfers of customary land to the estate subsector; the Government to amend Land Act to enable adjustment of estate land lease rent at intervals of not more than 3 years; announce an increased estate land lease rent of at least MK20/ha; implement a system to collect estate lease rents through tobacco auctions; undertake a study to establish a basis for differentiating estate land lease rent according to land quality; introduce differentiated land rents; establish estate extension service as an autonomous trust body; and strengthen inspectorate staff of Department of Lands to enforce establishment of woodlots by estates.

Government did amend the Land Act, but with exemption clauses that effectively minimized any positive impact. The provision that smallholders can grow and market burley tobacco has probably done more to slow down the transfer process than the amendment banning transfers. In 1990, the Estate Extension Service Trust (EEST) was established, with ODA assistance, as an autonomous trust under the Tobacco Association of Malawi (TAMA). While lease rents were increased from MK10/ha to MK30/ha, they are still thought to be too low to have any noticeable impact on the estate land use. Moreover, although under-utilization is probably influenced by the low cost of establishing estates and the annual lease rents, inadequate access to capital appears to be the main constraint on more extensive utilization. The provision to collect estate lease rents from the tobacco auction has been successful in improving revenue collection from both current and past accounts (World Bank, 1994b).

Market-Level Policies

Parastatal Trading or Marketing Boards

<u>Agricultural Development and Marketing Corporation (ADMARC)</u>. ADMARC has been responsible for distributing fertilizer and hybrid, composite and improved local varieties of seed to smallholders, managing Malawi's strategic reserves of maize, and marketing strategic crops based on floor and ceiling prices. Agricultural produce markets were then liberalized, but ADMARC continues to play a dominant role , especially in the maize market. The parastatal has

also had an effective monopoly over retailing fertilizer and 90 percent of hybrid and composite seed sales to the smallholder subsector.

Since pricing and marketing policies are being liberalized, the Government has refined the role of ADMARC as a buyer and seller of last resort for staple food crops. A Memorandum of Understanding (MOU) was prepared which outlines the principles for identifying the social roles undertaken by ADMARC and calculating the costs of these roles. It specifies the arrangements for ADMARC's reimbursement by Treasury for fulfilling social roles and defines specific performance targets to ensure that ADMARC is efficient in carrying out its social functions (World Bank, 1993b). Though the MOU was only signed in December 1993, its implementation began before then in 1990/91. Nonetheless, this area had been prolonged and delayed due to difficult and lengthy negotiations. Two major causes appear to have caused the delay: the cost to Government of ADMARC's interventions on its behalf; and ADMARC's lack of confidence that it would indeed be reimbursed in full for the losses it incurred (World Bank, 1994b).

ADMARC also implemented a divestiture program. The program has stayed in course, USAID assisted ADMARC in the design and implementation of the program. At one time, ADMARC's operations included farms, sugar estates, tea and macadamia estates, banks, rice and oil processing, flour milling, fishing, meat processing, fertilizer processing, tea processing, cloth manufacturing, cotton ginning, freight forwarding, and others. Beginning 1986, ADMARC divested itself of many of these holdings. The program is continuing with the assistance of USAID (World Bank, 1994b).

ADMARC attempted to implement a commission agent system for markets that are not financially viable, but despite attractive offers to sell or rent warehouses, they found little interest among private traders, and the program was discontinued. In 1993, ADMARC operated 40 depot delivery markets and over 1,000 seasonal markets. While some ADMARC markets were closed in 1987/88, others were opened and some of the closed ones were subsequently re-opened; the reductions in the markets was about 125.

<u>Smallholder Farmers Fertilizer Revolving Fund of Malawi (SFFRFM)</u>. SFFRFM, established in 1983, has been responsible for procuring fertilizers required by smallholders, managing the fertilizer buffer stock and facilitating the distribution of fertilizer provided under commodity aid agreements. SFFRFM used to operate as a separate unit within ADMARC, but was transferred into a trust corporation under government control in 1988. SFFRFM fertilizer imports have increased from 77,500 tons in 1987/88 to 136,251 tons in 1992/93 (12.5 percent average annual increase).

Under ASAC, a 5-year projection of fertilizer requirements as well as operational guidelines for the management of buffer stocks were supposed to be prepared. Government was to continue reducing subsidies and take actions to facilitate private sector participation. Preparation of the rolling 5-year requirement projection was completed and incorporated into the EEC fertilizer support project along with measures to improve the financial and managerial efficiency of SFFRFM. Additionally, the Government established a code of practice for drawing on buffer stocks, ensuring that buffer stocks would not be reduced below the equivalent of 90,000 tons. In May 1993, Government finalized and publicly announced its policy to open up smallholder fertilizer markets to the private sector, i.e., Government liberalized the import and domestic distribution of fertilizers. Members of the general public are now allowed to purchase fertilizers from the SFFRFM on wholesale for retail.

Tobacco Control Commission (TCC). TCC is a Government Statutory Body appointed in 1938 by the Minister of Agriculture under the Control of Tobacco Auction Floors Act. Cap. 65.03. TCC is financed by the tobacco growers through a levy on the auction floors and consists of 7 members from the following organizations: 2 from Tobacco Association of Malawi (TAMA); 2 from TEAM; 1 from ADMARC; and 1 from MoALD. The TCC is responsible for all aspects of tobacco marketing. It organizes and supervises auction sales for all types of tobacco except oriental; issues licenses to auction floors, to buyers and to commercial graders; sets the rules for packaging, presentation, and sale of each type of tobacco; collects and distributes statistics to producers and buyers; and issues certificates of origin for export of Malawi tobacco. All tobacco farmers are required to register with the TCC to receive a marketing quota; to ensure orderly throughput and avoid congestion. TCC also issues delivery quotas to all growers.

Output Marketing and Prices

Output marketing

During the 1980s, Government progressively liberalized its pricing and marketing policies for smallholder crops. Since 1987, private traders have been allowed to buy and sell all smallholder crops, except cotton and tobacco. The marketing restrictions for cotton were lifted in 1991 (World Bank, 1993b). At the same time, the strategy was intended to enable ADMARC to narrow its participation in these markets and increasingly focus on price stabilization and the management of the country’s strategic grain reserve. In 1990/91, ADMARC reported 605 registered traders although private trader registrations do not reflect the total number of traders since many other traders operate without a license. Lack of infrastructure and credit are among the factors that continue to constrain the growth of private agricultural trading in Malawi.

In 1994, the Government liberalized the marketing of all tobacco including oriental tobacco and Western tobacco grown by smallholders (Northern Division dark fire-cured, Southern Division fire-cured, and sun/air cured tobaccos). Farmers now have the choice of selling their tobacco directly to auction floors or any other intermediate buyer, in addition to ADMARC. Previously, ADMARC was required to purchase all fire-cured and sun-air cured tobacco offered by smallholders. ADMARC operates buying stations in the producing regions for purchasing tobacco. After grading, ADMARC sales the tobacco at the auction floors. ADMARC also buys burley from smallholders who do not have access to transportation to the auction.

Output prices

The official policy of the MoALD has been “progressive decontrol” of prices. Currently, Government sets floor and ceiling prices for smallholder maize only, but all other crops have been descheduled. Prices of maize will probably continue to be set for some time to come given the crop's vital role in food security. Maize producer prices are determined primarily with the objective of stimulating production as part of Malawi's food security efforts and to equate supply and demand.

Before descheduling the other crops, their prices were supposed to be determined on the basis of export parity principles. This was not the case. For instance, nominal protection coefficients show that smallholder producer prices for rice, groundnuts and cotton were further from their export parity levels in 1991/92 than they were in 1987/88, and that although the situation had improved with respect to tobacco, producer prices were still some way from the export parity levels. Thus, although price reviews had been sent annually to the World Bank, and comments have provided to the Government in response, it is not clear that this process had an impact on the economic efficiency of the official pricing regime or on improving the smallholder incentive framework.

One of the principal actions of ASAC, along with allowing smallholders to grow burley tobacco, was to ensure that ADMARC's tobacco buying prices were brought into line with their border equivalents by implementing a two-payment price system. ASAC conditionality required a first price of not less than 45 percent of a rolling 3-year average of auction floor prices to be paid on delivery at ADMARC markets, with a second payment at the end of the season (bonus payment) of at least 65 percent of ADMARC's net profits from sales of tobacco. In the past, ADMARC purchased tobacco (not burley, but sun-air cured and dark-fired) from smallholders at fixed prices which were rarely more than 30 percent of the price ADMARC received in selling these tobaccos on the auction floor. In addition, the Government initiated a freer marketing system for burley tobacco, supported by the USAID funded ASAP.

The establishment and implementation of the two payment system for tobacco producers has ensured that a larger proportion of the profits is returned to the smallholders. Now that even smallholder marketing of tobacco has been liberalized, with ADMARC operating in competition with other buyers and direct sales to auction floor, the issue of ADMARC pricing becomes less important.

Intervention Buying
Intervention buying is not practiced in Malawi. ADMARC prices are pan-seasonal and pan-territorial. Although local market price information is collected by the MoALD, intervention buying is not practiced.

Food Subsidies to Consumers
Food subsidies to consumers have been phased out. Previously, the subsidies were effected through ADMARC, but now ADMARC sets prices in such a way that it just breaks-even. However, it may be argued that ADMARC indirectly subsidizes the consumers in the sense that its consumer prices are lower than the local market prices.

Restrictions on Commodity Movement and Trade
Only maize is restricted, i.e., cannot be exported by private sector, because of its strategic importance. Until recently (1994), export bans had been placed on groundnuts, beans and pulses on adhoc basis, but the restrictions on these crops have now been removed.

Quality Standards and Control
Malawi Bureau of Standards (MBS) is the main organization responsible for checking and controlling quality standards of traded commodities. The Bureau, a statutory body formed in 1972, is empowered to promote standardization in industry and commerce, thereby promoting quality of goods for the local and export market. Among other things, the Bureau provides export related services which include export-quality control, pre-shipment inspection and issuing of certificates of compliance with standards/requirements abroad.

Excise Taxes
Excise taxes are charged on imported farm implements and chemicals such as those for spraying cotton. Taxes are not levied on imported fertilizers.

Excise tax is collected for certain exported agricultural commodities such as tobacco, hides and skins, and tung.

Strategic Reserves and Food Security
With one of its primary objective being to enhance food security, ASAC included a component to strengthen Government capacity to monitor the impact of the adjustment program on the vulnerable and resource-poor group. In addition, the Government committed itself to: (a) ensure that at least 50 percent of fertilizers supplied by SFFRFM would be packaged in bags of not more than 25kg; (b) setting fertilizer prices to provide a higher rate of subsidy on high rather than low analysis fertilizers; (c) locating the smallholder burley production schemes in areas where at least 75 percent of landholdings are less than 1.0 ha; and (d) initiating implementation of the UNDP-funded project to test various ways to targeting agricultural credit and fertilizer subsidies to the food deficient households. Finally, to enhance food security at national level, the Government agreed to implement a plan to improve operational guidelines for the management of the Strategic Grain Reserve (SGR). The SGR can hold up to 180,000 tons of grains and is managed by ADMARC.

Fertilizer subsidy reduction policies and targeting burley production quotas have been implemented and have been addressed above. SFFRFM, in an attempt to meet the requirements of the poorest smallholders in procuring fertilizer, initiated a pilot scheme for distributing fertilizers packaged in bags of up to 25kg. Several options were tried, including bags of 10, 15 and 25kg. Demand for 25kg bags was indeed high and distribution was reported to be successful. Demand for smaller bags was negligible, and cost of unbagging and rebagging proved prohibitive. Thus, SFFRFM discontinued the distribution of 10 and 15kg bags. As noted earlier, SFFRFM operates a buffer stock scheme (90,000 tons). Currently, debate is going on the composition and size of the scheme in the light of the liberalization of the fertilizer market.

The UNDP-funded targeting project was initiated in November 1990, but was discontinued in January 1993 since it could not deliver its designed outputs because of a number of obstacles encountered during implementation.

The SGR has proved its usefulness even before ASAC; in 1987/88, it provided large infusions of food at a very critical point and helped meet domestic needs when food supplies were reduced by localized drought and the cassava mealy bag. Although there was a wide gap between ADMARC consumer prices and open market prices, the situation would have been far worse without the maize from the SGR. In the drought of 1992, the SGR stocks also proved critical to the nation's food security. Of the total of about 300,000 tons of commercial maize supplied to the market by ADMARC, one-third came from SGR stocks. However, better information about the structure of both supply and demand, and pragmatic research on the lessons of the drought will permit improvements in the models developed to help guide decision-making on the size and management of the SGR. Thus, while the SGR has helped reduce the adverse effects of periodic shortages on food security, there appears to be room for further improvement in the management (World Bank, 1994b). The Government intends to restock the SGR to the full 180,000 ton level during 1993/94 and 1994/95 (IBRD, 1994).

Annex II summarizes the food and agricultural sector policy reforms and the action taken.

5. Other Policies

Public Sector Investment Program

The Public Sector Investment Program (PSIP) is a 3-year rolling plan developed by various line ministries and coordinated by the Ministry of Economic Planning and Development. The PSIP is intended to serve as a screening mechanism to ensure that the proposed investment projects are in harmony with agreed government priorities and that scheduling of investments is consistent with the overall expenditure ceilings and the absorptive capacity of the individual sectors. Ministries are furnished with information on financial ceilings at the beginning of the budget process to assist with planning of the investment projects.

Table 5 gives Malawi's 10-year development budget for 1985/86-1994/94 and projections for 1995/96-1997/98. Transport and communication, agriculture, education and health were the main investment sectors in 1993/94. Generally, shares of investment in education and health have been showing a positive trend whereas that in transport and communication appears to be showing a negative trend. Shares in agriculture, education, and health are projected to increase during the 1995/96-1997/98 period, whereas the share in transport and communication is projected to continue declining.

Labor Policies

Ethnic Quotas

Malawi does not have policies that discriminate labor on the basis of ethnic group, region or gender. Malawi is a member of the Geneva Labour Convention and signed a total of 23 covenants, one of which prohibits discrimination of labor based on ethnic group, region or gender.

Number and Types of Occupation/Activities Restricted to Nationals and Permitted to Foreigners

The Government would normally prefer to restrict jobs at the middle management level and below to Malawians. Such jobs would include, for instance, retail managers, electric technicians, mechanics and other tradesmen. Foreigners would normally be permitted to take up top management positions requiring higher skills scarce in Malawi, such as General Manager, Managing Director and Financial Controller. After all, firm owners in most cases prefer to have their own representatives occupying such top posts and appointments for the positions are normally made directly by the firms without the Government having much say. The situation is

Table 5: Ten-Year Actual Development Budget for 1985/86 - 94/95 and Projections for 1995/96 - 97/98

	85/86	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98
DEVELOPMENT BUDGET (MIL.MK)	160.22	189.78	207.40	342.07	295.29	311.62	314.82	467.71	511.34	700.10	750.45	839.11	943.23
GDP (BILLION MK)	1.95	2.19	2.76	3.55	4.53	5.07	5.97	6.10	6.18	11.20	12.51	13.99	15.72
DEV. BUDGET GROWTH RATIO (%)	15.78	18.45	9.28	64.93	-13.68	5.53	1.03	48.56	9.33	36.91	7.19	11.81	12.41
GDP SHARE (%)	8.22	8.66	7.52	9.63	6.52	6.15	5.27	7.66	8.28	6.25	6.00	6.00	6.00
SECTORAL ALLOCATION (million MK)													
Agriculture	25.88	50.44	57.17	72.09	55.32	62.22	78.92	91.55	85.51	177.44	190.20	212.67	239.06
Education	20.65	18.71	14.59	31.21	25.81	40.22	58.65	73.83	80.64	127.42	150.24	184.77	226.56
Health	2.75	5.66	8.93	22.79	21.37	25.86	35.92	39.26	75.69	111.86	119.91	134.07	150.71
Community Development	0.13	0.13	1.90	1.80	0.80	4.35	4.04	7.15	18.69	21.04	22.56	25.22	28.35
Water & Sanitation	5.78	6.07	22.59	22.11	23.26	15.63	36.36	64.07	44.67	44.58	47.79	53.44	60.07
Total Social Sector	29.31	30.57	48.01	77.91	71.24	86.06	134.97	184.31	219.69	304.90	340.50	397.50	465.69
Transport & Communications	65.10	71.99	69.39	163.81	136.80	121.86	49.58	134.59	113.10	127.65	136.83	153.00	171.98
Other	39.93	36.78	32.83	28.26	31.93	41.48	51.35	57.26	93.04	90.11	82.92	75.94	66.50
TOTAL	160.22	189.78	207.40	342.07	295.29	311.62	314.82	467.71	511.34	700.10	750.45	839.11	943.23
SECTORAL SHARE (%)													
Agriculture	16.15	26.58	27.57	21.07	18.73	19.97	25.07	19.57	16.72	25.34	25.34	25.34	25.34
Education	12.89	9.86	7.03	9.12	8.74	12.91	18.63	15.79	15.77	18.20	20.02	22.02	24.02
Health	1.72	2.98	4.31	6.66	7.24	8.30	11.41	8.39	14.80	15.98	15.98	15.98	15.98
Community Development	0.08	0.07	0.92	0.53	0.27	1.40	1.28	1.53	3.66	3.01	3.01	3.01	3.01
Water & Sanitation	3.61	3.20	10.89	6.46	7.88	5.02	11.55	13.70	8.74	6.37	6.37	6.37	6.37
Total Social Sector	18.30	16.11	23.15	22.77	24.13	27.63	42.87	39.41	42.97	43.56	45.38	47.38	49.38
Transport & Communications	40.63	37.93	33.46	47.90	46.33	39.11	15.75	28.78	22.12	18.23	18.23	18.23	18.23
Other	24.92	19.38	15.82	8.26	10.81	13.31	16.31	12.24	18.20	12.87	11.05	9.05	7.05
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Ministry of Economic Planning and Development nevertheless fluid in that there are some foreigners, particularly in private firms, working at the middle management level or below, and there are Malawians working at the top management level as General Managers, Managing Directors or Financial Controllers.

Time Required to Obtain Business Visas/Work Permits.

According to the Ministry of Labor, it normally takes 4-6 months to process a business visa or work permit. It is recommended that an application is made at least three months before expiry of the present permit or before the applicant enters Malawi. Applicants submit their applications to the Immigration Department which are then forwarded to the Ministry of Labor for further processing. Delays are normally experienced when all relevant documents are not initially submitted. Request to firms for submission of additional information made by Ministry of Labor are routed through the Immigration Department.

Restrictions on Movement of Labor within Countries and Across Borders

With the advent of multiparty democracy in May 1994, people are free to seek employment both within and outside the country. This was not the case under single party rule when, in 1989, Government officers were instructed not to assist anybody trying to seek employment outside the country. Additionally, security clearance was required for one to move into and outside the country, but this was abolished by the General Amnesty Act.

Wage Policies

The Ministry of Labor is a Secretariat to the Wages Advisory Board and six Wage Advisory Councils. The Board fixes new wages which are based on the inflation rate. In 1989, the minimum wage was raised by over 100 percent based on a “basket of commodities” for a family of five, using the cost price index of the commodities. The same method has been used ever since. A Law was passed in 1992, as part of World Bank/IMF conditionality for a loan, to review wages every 24 months or when the inflation rate has reached 20 percent, whichever comes earlier.

Effective July 6, 1994, Malawi introduced a two-tier minimum wage system, again a World Bank/IMF conditionality, whereby areas are divided into two broad classifications with different minimum wage rates:(1) Cities (including one Municipality) - MK3.55/day; and (2) Other Areas (including gazetted townships and rural areas) - MK3.00/day. Malawi was using a three-tier system before the change in July 1994.

Ministry of Labor is also required to provide protection to tenants as a conditionality for a loan, and was required to release a “Policy Statement on Social Protection of Tenants” by September 30, 1994. The Statement was released on September 29, 1994. The Ministry is now working on the necessary Law in conjunction with the Ministry of Justice which should be debated in parliament in March 1995, as another World Bank/IMF conditionality.

The Ministry was also required to liberalize the labor market, as another condition for the World Bank/IMF loan, and thus published a “Policy Statement on Trade Unions and Collective Bargaining on August 31, 1993. Employees are free join Unions of their choice, and through the Unions, employers and employees can negotiate wage levels.

Price Controls

Most commodities have their prices decontrolled. There are only three product groups remaining on the list of legally price-controlled goods. These commodities are to be necessities. The product groups are:

(a) fuel (petrol, diesel and paraffin);
(b) fertilizers; and
(c) motor vehicle spare parts.

Frontier Level Policies

According to the Ministry of Commerce, Trade and Tourism, there are no import quotas in Malawi, and there has never been a system of import quotas in the country. The major non-tariff barrier has been the import and export licensing, which are gradually being removed over the years.

6. Macroeconomic and Sectoral Policies, 1993/94-1995/96[3]

Medium-Term Strategy and Objectives

Malawi's economy remains fragile, narrowly based and lacking key social services and infrastructure. After more than a decade of stabilization and adjustment programs, the structure of the Malawi economy is still dominated by the production and export of a limited number of agricultural crops and the associated processing and distribution of these crops. Despite the substantial progress in deregulating the economy and creating a more conducive climate for the private sector, the development of the private sector and the supply response have remained below expectations, constrained in part by the monopolistic structures in production and distribution. Furthermore, the economy continues to be adversely affected by recurrent droughts and transport bottlenecks that seriously reduce its competitiveness.

Given these structural problems, the adjustment strategy is to place greater emphasis on policies and structural reforms that would promote a greater supply response, accelerate economic diversification, raise average productivity across all sectors, enhance domestic competition, and improve external competitiveness. Agriculture will continue to be a major source of growth and providing employment and subsistence for some 80 percent of the total population and the main source of raw materials for the manufacturing sector. The major challenge in this sector will be to improve productivity in the estate and smallholder subsectors, while vigorously promoting diversification out of tobacco and maize production (IBRD, 1994).

Growth in the manufacturing sector is expected to be generated by the liberalization of the exchange system, the rationalization of the external tariff, and the growth of output in the agricultural sector. Additionally, diversification of manufacturing output and increasing exports of manufactured goods will also depend on the reduction in transport costs and a substantial broadening of the ownership base. The continued development of human resources and improvements in the social and physical infrastructure will also constitute critical elements of the development strategy (IBRD, 1994).

Against this background, the overall macroeconomic objectives for 1993/94-1995/96 are (IBRD, 1994):

1. a real growth rate rising to 4.5 percent by 1995/96;
2. a deceleration in the rate of inflation to 5 percent by the end of the program period;

[3] This Chapter is largely drawn form IBRD (1994).

3. a further reduction in domestic and external imbalances with a view to attain a sustainable balance of payments position by the end of the program period; and
4. to ensure economic security for the vulnerable social groups, and poverty alleviation.

The attainment of the growth objectives will necessitate an increase in the rate of investment, particularly of the investment from the private sector, and substantial improvement in the quality of investment. It is projected that the investment/GDP ratio would rise from 13 percent in 1993 to 18 percent in 1996. A significant proportion of public investment will continue to be financed by external assistance. However, over the medium term, domestic savings are expected to finance an increasing share of the total investment. The domestic savings/GDP ratio is projected to rise from 2 percent in 1992 to 13 percent in 1996 (Table 3).

Exports are expected to be favorably affected by continued implementation of trade liberalization, particularly the envisaged elimination of export licensing, which is expected to spur the growth of nontraditional exports. Export unit values are projected to increase at an average 4 percent per year in SDR terms; the volume of exports is projected to increase at an average annual rate of 4.9 percent over 1994-96; and the volume of imports is projected to increase in line with the increase in real GDP. The external current account deficit (excluding grants) is expected to decline gradually from 11.4 percent of GDP in 1994 to 8.4 percent in 1996. The debt ratio is projected to stabilize at an average of about 23 percent of exports of goods and nonfactor services over the medium term. The program aims at increasing external reserves from the equivalent of 1.2 months of imports at the end of 1993 to three months by end-1996 (Table 3).

The Macroeconomic and Sectoral Policies

Macroeconomic Policies

Fiscal Policy

Fiscal policy will continue to play a critical role in re-establishing and sustaining macroeconomic balance and increasing domestic savings. Underlying strategy will emphasize fiscal discipline and the consolidation and extension of structural policy reforms. Thus, overall government budget deficit (before grants) is targeted to decline from estimated 7.9 percent of GDP in 1993/94 to 3.2 percent in 1995/96; after grants, the deficit is projected to be reduced substantially by 1995/96.

Government plans to consolidate and extend the tax reforms implemented since the 1980s aimed at reducing tax distortions in production, trade and investment, and complete rationalization of the external tariff. For the surtax, the objective is to move to a uniform rate for goods and services, building upon the progress made during 1991/92-1993/94. The next review of excise duties and surtaxes will focus on further harmonization and simplification, consistent with programmed reduction in external tariff rates, expected to be accomplished in stages during 1994-96. The Tax Policy Unit will be strengthened, training programs will be continued in the Income Tax as well as Customs and Excise Departments in the areas of auditing and collection, management and tax analysis. The management information system will be improved and tax arrears reduced. A broad review of the tax system will be carried out during 1994, and an action plan to improve tax effort will be developed and implemented soon thereafter. With these policies, ratio of revenue to GDP is expected to rise from about 16.5 percent (excluding grants) in 1993/94 to an average of about 18.5 percent during 1994/95-95/96.

Current expenditure is targeted to decline from 19 percent of GDP in 1993/94 to an average of 17 percent in 1992/93-93/94. Particular attention will be paid to growth of civil service wages and salaries to ensure that further increases are sustainable and consistent with revenue growth and overall macroeconomic stability. The ratio of wages to GDP is projected to decline from about 5.6 percent in 1993/94 to about 5.2 percent in 1995/96. With the completion of the Malawi Railways, its reliance on budget subsidies is also expected to be phased out over the same period. Priority expenditures on education, health, water, sanitation, and road maintenance are expected to increase relatively faster than total current expenditure. These policies will allow development expenditure to be increased from 6.2 percent of GDP in 1994/95 to 6.5 percent in 1995/96, in line with the Government's implementation capacity.

The Public Sector Investment Program (PSIP) will continue to be carried out within the context of a 3-year rolling plan which will incorporate parastatal investments. Sectoral priorities and annual investment expenditures in the public sector and their current cost implications will be reviewed annually. The PSIP will give priority to projects and programs that will enhance the diversification of the Malawian economy. Distribution of investment expenditure will therefore continue to give high priority to rural development (at least 20 percent), education (at least 23 percent), and health (at least 18 percent).

External Sector Policy

External sector policy will continue to focus on the maintenance of external competitiveness and the attainment of medium-term balance of payments viability. A market-based exchange system was adopted. The exchange rate for the Malawi Kwacha is determined on the basis of supply and demand for foreign currency. Authorized exchange dealers and market participants are free to buy and sell foreign currency at freely determined exchange rates. To broaden the market and encourage competition, the Reserve Bank holds a weekly wholesale fixing session at which offers to buy and sell foreign exchange are matched to arrive at a market clearing rate. Foreign exchange bureaux and brokers are allowed to take part in specified foreign currency transactions. Orders and payments are no longer subject to prior approval of the Reserve Bank, except for temporary specified list of services.

Requirements for residents to surrender foreign exchange to authorized dealers was abolished, except for tobacco, tea and sugar exporters, who have to surrender 10 percent of their export earnings to the Reserve Bank at the moment. Limits on the amount of foreign exchange which could be purchased for foreign travel (holiday, medical, business) were raised and administered flexibly. The authorities intend to refine the new exchange system as it evolves and as the financial system becomes more competitive. The final objective is to move gradually to a free interbank market in foreign exchange by end-1996. These reforms are expected to contribute greatly to increased confidence and to a more efficient and depoliticized exchange rate policy.

The Ministry of Commerce, Industry and Tourism has reviewed the list goods for which import and licenses are required. Effective April 1, 1994, the list of commodities subject to export licensing is to be reduced by ten items including groundnuts. Consideration is being given to a parallel reduction in the number of items subject to import licensing. Further reductions in the number of commodities subject to export and import licensing will be made during the program period. As a measure to attract foreign investment, current policies allowing the repatriation of dividends and profits will be continued during the program period.

The program of tariff simplification and rationalization will be continued and is expected to be completed by FY 1995/96. The tax reform is intended to bolster and complement other policies in the external sector by reducing the level and dispersion of domestic protection and promoting exports and efficient import substitution. The next stage of the reform will involve the reduction in tariff rates from 11 percent to 5 percent, the gradual reduction in the maximum import tariff rate, from 45 percent to 40 percent in 1994/95, and to no more than 35 percent in 1995/96, and the revision of the remaining tariff rates such that an average statutory tariff rate of 15 percent is achieved by 1995/96. A review of customs duty exemptions supposed to be undertaken by end-June 1994, with the view of limiting such exemptions to the absolute minimum. Thus, the exemptions granted under the policy of industrial rebates was supposed to be phased out by end of FY 1993/94. The Government intends to set up the necessary technical working parties, which will elaborate the modalities and the timetable for measures to promote the objectives of the Cross Border Initiative for countries in East and Southern Africa.

Monetary Policy

Monetary policy will continue to be aimed at achieving and sustaining a low rate of inflation consistent with the overall growth of balance of payments objectives. In recent years, the monetary authorities have taken a series of measures to move from a direct to an indirect system of monetary control. These measures included the removal of controls on interest rates, new legislation facilitating the development of money and capital markets, the introduction of rediscount and repurchase facilities at the Reserve Bank of Malawi, and the abolition of credit ceilings.

In the short-term, monetary policy will play a critical role in reducing inflationary expectations and restoring a viable balance of payments position. The Reserve Bank will thus continue to pursue a restrictive monetary stance through tight control of the liquidity position of commercial banks, the maintenance of a positive real interest structure, and the greater use of market-based intervention policies.

In the medium and long-term, the objective will be maintain a flexible monetary policy in close coordination with fiscal and exchange rate policies, accompanied by appropriate reforms in the financial sector designed to foster financial depth and increased competition. The Reserve Bank will be restructured to enable it to improve its efficiency in managing the change. Continued liberalization of the domestic financial system and the exchange system will call for substantial improvements in the Reserve Bank’s supervision capabilities, adaptations and improvements in the payments and clearing systems, and innovative management and leadership in promoting the growth of domestic and capital markets.

Sectoral Policies

Agriculture

Agriculture will remain the mainstay of economic growth in Malawi. The sector has substantial untapped potential for growth that can be mobilized through the elimination of the remaining formal and informal barriers to entry. Therefore, the Government is committed to accelerating structural reforms in order to remove the remaining constraints to production and marketing of agricultural commodities, increase domestic competition, and abolish the monopoly power of public enterprises by promoting private sector activity. Such a strategy will help achieve the goals of higher output of traditional crops and agricultural diversification into nontraditional ones.

In the smallholder subsector, the primary objectives are to enhance food security, raise incomes, and expand the proportion of commercial smallholders. Special emphasis will be given to improving the situation of food deficit and female-headed households. Increases in food production will be achieved through higher crop yields, attained through increased fertilizer use and adoption of high-yielding crop varieties, with emphasis on newly developed maize varieties. The Government is committed to expanding smallholder access to burley production; by 1994/95, at least 25 million kgs of burley tobacco will be allocated to smallholders, with a significant proportion of the quota allocated to smallholders in high population density areas. Government intends to put in place adequate infrastructure to facilitate efficient marketing and to ensure continued high quality of smallholder tobacco.

Government has deregulated all smallholder crops, except maize, such that prices and marketing arrangements are determined principally by market forces. The improved price incentive system for nontraditional smallholder crops will facilitate diversification away from maize and tobacco. Government has also liberalized the marketing of all varieties of tobacco.

The Government is committed to the general principle of full cost recovery for smallholder inputs to promote efficient allocation. Government is planning to phase out fertilizer subsidies by 1995/96. To promote fertilizer use by poor smallholders, the authorities plan to enhance the targeted input program over the program period.

Private sector participation in smallholder agricultural marketing and input distribution will be promoted. In 1992, Government lifted restrictions on private sector marketing of smallholder burley and seed cotton. All domestic marketing restrictions on other smallholder crops, including groundnuts and pulses, were removed this year (1994). The fertilizer reform program to liberalize fertilizer importation and distribution started in 1993/94, and SACA has been incorporated into the MRFC.

In the estate subsector, Government’s strategy is to enhance productivity and to improve efficiency in resource use, with emphasis on expansion and diversification of agricultural and agro-industrial exports. These objectives will be achieved through removing policy and institutional constraints to diversification, further strengthening of the estate extension services, increasing access to seasonal and medium-term credit, and implementing an appropriate land utilization policy. The authorities intend to: (i) establish a cost-effective monitoring system for agricultural land use as a basis for enforcing land covenants in 1994; (ii) liberalize fuelwood marketing and prices in 1994: (iii) introduce opportunity-cost based land rents system; and (vi) increase land rents to a level consistent with Government objective of maintaining land rents at least equal, in real terms, to those rates prevailing in 1985. By 1995, Government will lift existing restrictions on agricultural exports and will allow access to Malawians of all ethnic background to engage in production and trade of nontraditional export crops. Starting 1994, Government will liberalize sugar marketing, and remove restrictive wholesale licensing.

Industry, Finance, and Energy

Government's development strategy for the industrial sector will emphasize the removal of constraints on private sector activity and the maintenance of a market-determined pricing system. Government will consolidate the investment-enhancing measured introduced with the Investment Promotion Act and will ensure that cumbersome administrative steps, such as obtaining land leases and approval of duty drawback, are rapidly eliminated. Industrial supply response will be accelerated by reducing high level of ownership concentration in trade, distribution, manufacturing and finance sectors; enhancing domestic competition; and addressing the issue of restrictions on business activity by ethnic minorities.

In the medium-term, Government's strategy is to broaden the overall ownership base in the industrial sector through attracting more domestic and international investment. Reorientation of the existing large conglomerate and new entrants toward export production will be encouraged through further streamlining of export incentives, such as export duty drawback, export credit guarantee schemes, and inbound manufacturing. Government plans to establish one or several Unit Trusts to facilitate broad-based participation of Malawians.

The Government intends to improve the investment and operating environment for small businesses, which are expected to play a significant role in the future growth of employment and income as well as in rural and urban poverty alleviation. Government will also continue to establish and expand, as needed, business areas in traditional housing areas and in high density modern residential developments. In 1994/95, Government intends to implement an action plan to ensure that the most support institutions serving small- and medium-scale sector (e.g., SEDOM, INDEFUND, DEMATT) will achieve cost recovery, while those that cannot attain commercial viability and provide poor services are phased out.

A number of policy reforms to deepen financial markets and improve the efficiency of financial intermediation and resource mobilization have been initiated. In 1994, the Government intended to identify ways of broadening the ownership structure of the commercial banking sector and accelerating divestiture of public sector equity in the commercial banks. In 1994/95, the Government will continue with the restructuring of the Malawi Savings Bank (MSB), formerly called the Post Office Savings Bank (POSB), including (i) the gradual revision of the tax-exempt status for the MSB deposit interest and (ii) the expansion in the authorized investment of its funds in a wider range of financial instruments.

Government recognizes the necessity of encouraging the most efficient use of power and petroleum products. The Electricity Supply Commission of Malawi (ESCOM) will commence the phased implementation of the Kapichira Hydroelectric Scheme, which will provide additional power to meet the growing demand and raise living standards by expanding current low level (3 percent) household access to electricity through extending the network to peri-urban and rural areas. Government will also ensure that domestic prices of petroleum products reflects a full and timely pass-through of import and domestic distribution costs and taxes. It will continue to follow the policy of adjusting electricity tariffs in a timely manner on the basis of long-run marginal costs of production.

Infrastructure
Government is committed to enhancing the allocation of freight traffic to more economical routes. Government also intends to implement policies that will enhance effective competition in the transport sector among Malawian-owned and foreign-owned operators. Thus, in 1994/95, Government will change legislation in such a way that both operator groups will be treated equally with regard to imports of equipment and payment of tariffs in foreign exchange. To promote efficient resource allocation, Government intends to deregulate trucking and passenger fares, liberalize sector entry, and lift restrictions on direct imports of trucks, equipment and spare parts, both new and second hand. Price control on spare parts will also be removed.

The restructuring or privatization of unprofitable transport parastatals is a key strategy for transport sector. Government intends to implement restructuring plans for Malawi Railways and Lake Services, which will ensure commercial viability of rail freight traffic. Government will also ensure that Air Malawi investment program remains consistent with the airline’s debt service capacity and its financial viability.

Government will place particular emphasis on water resource management and road maintenance, and rehabilitation to preserve the current stock of road infrastructure. Urban water supply will be expanded where financially viable. In rural areas, the rehabilitation of boreholes and gravity-fed water supplies will be emphasized as a safeguard to reduce the impact of supply shocks from future droughts. Of particular importance is the development of pilot projects for smallscale irrigation. Government will amend Water Resources Act with a view to improving water resources management and efficiency in the use of this valuable resource, and mitigating the adverse environmental impact of waste waters.

Public Enterprise Sector
The Government has implemented a comprehensive restructuring of the parastatal sector since 1987, comprising reorganization, divestiture, cost reduction, and regularization of financial flows, which have led to strong financial performance, improved operating efficiency, and reduced budgetary transfers. Follow-up steps to the divestiture program of ADMARC include the transfers of subsidiaries into a unit trust for which funding needs to be secured. The Government will

ensure that ADMARC's net use of seasonal commercial bank overdraft in any year will be zero by end-year.

Malawi Railways (MR) is committed to restructuring its operations to achieve commercial viability through (i) the discontinuation of unprofitable routes and services, (ii) the limitation of investment to targeted replacement of obsolete assets, (iii) the rationalization of tariff levels, (iv) the reduction in administrative costs, and (v) restructuring of Lake Services, an unprofitable division of MR. Implementation of the comprehensive restructuring plans for both services will commence in 1994.

As regards the rest of the parastatal sector, the Government will (i) further strengthen the regulatory framework for parastatal management by expanding the institutional capacities of the Department of Statutory Bodies (DSB), (ii) draft an action plan, by end of 1994/95, for privatization of selected commercial parastatals, and (iii) review the scope of transferring purely developmental parastatals from DSB to parent ministries.

Labor Market

Government is committed to implementing the recommendations of the 1993 Labor Market Review with a view to stabilizing the labor market conditions and facilitating investment response in labor-intensive activities. The most important components of the action plan are: (i) with the 1994/95 budget, reduction of the minimum wage structure to two levels (a rural minimum wage and an urban minimum wage), which has already been implemented; (ii) support of developments in collective employer-employee wage bargaining as a step to give autonomy to decentralized labor negotiations; and (iii) support of economic activities and policies to increase the productivity of labor, especially policies that enhance economic activity in the informal and rural sectors.

Civil Service

Government is committed to achieving increased efficiency and effectiveness in the civil service, and will place emphasis on the core personnel, budgetary and financial management functions so as to reduce the share of wages and salaries in total current expenditures. A 5-year Institutional Development/Civil Service Reform project will be effective in 1994/95 to improve personnel management and control, accountability and transparency, budgeting and financial management, and enhancement of managerial skills, especially through the training and consulting activities of the established Malawi Institute of Management.

Human Resource Development

Government will continue to implement a comprehensive program to strengthen human resource development in conjunction with its stabilization and structural adjustment policies. Some social indicators remain unfavorable, particularly with regard to nutrition, school enrollment, literacy and infant and maternal mortality levels. Government will also maintain and expand existing initiatives to support social development, with particular emphasis on the most vulnerable and disadvantaged groups.

Education

The education sector is confronting a real dilemma in expanding enrollment beyond the population growth rate, enhancing the quality of education, and establishing effective informal education programs for out-of-school youth and illiterate adults. Government's strategy is aiming at improved efficiency in education management and expansion, and quality enhancement of primary education. Special attention will be paid to increased access and retention rates for girls. Government will continue to increase budgetary allocation for education from 15 percent in 1993/94 to 18 percent in 1994/95 and 20 percent in 1995/96 in line with the implementation capacity of the ministry. Government is committed to increasing the share of primary education in the total spending for education from 35 percent in 1993/94 to 40 percent in 1994/95 and 45 percent in 1995/96.

Health

The health status of Malawi's population continues to be low, as evidenced by wide spread pattern of morbidity and chronic malnutrition. The rural population is poorly covered by health facilities, health workers, and health information.

Government will pursue an appropriate manpower initiative that prioritizes women in various aspects of health care and family planning. In particular, Government will focus on the serious health problems caused by AIDS, malaria, respiratory infections, and diarrhea and will promote related health education activities.

Government will increase the proportion of the total revenue budget allocated to the Ministry of Health (MOH) from 8.6 percent in 1993/94 to 9.1 percent in 1994/95; and increase relative funding for peripheral health services by at least 2 percent per year in 1994/95-1995/96.

Population

Malawi is one of the most densely populated countries in sub-Saharan Africa, with a current annual population growth rate of 3.3 percent. The rapid population growth puts extreme pressure on the country's land resources, national food security, labor market, and provision of education and health services. Government will continue supporting the Population Planning Unit and the Family Welfare Council which will promote family planning, development of a comprehensive strategy for family planning activities, expansion of family planning services in the Maternal and Child Health Program, including contraceptives, and population planning education in school curricula. The Government has adopted a National Population Policy aimed at propagating family planning and improving accessibility to family planning services.

Long-Term Development Issues

In addition to pursuing policies and programs designed to ameliorate structural constraints to growth in the short and medium term, the Government is also taking steps to address longer-term developmental problems.

Poverty

Malawi's central problem is poverty, and consequently, poverty alleviation forms the core of development agenda for the 1990s. More than half of the population lives below the poverty line, almost entirely in rural areas. Principal factors behind the pervasive problem are: limited employment opportunities; low physical productivity of land and labor in agriculture; low levels of human capital; and rapid population growth. Government is integrating poverty reduction into its overall strategy, which is based on a three-tier approach: (i) expanding employment opportunities through a liberal environment for private sector entrepreneurship and initiative, expanded access to capital, and policies and programs that encourage labor-intensive activities and participation by women; (ii) enhancing smallholder agricultural productivity for poor, small farmers, and ensuring sustainable use of land resources; and (iii) expanding access to human capital through increased public expenditures for education, health and other social services.

The above approach is further supported by an integrated family planning strategy to curb rapid population growth and reduce overall fertility rates, targeted agricultural and nutritional transfers programs, and grater involvement of non-governmental organizations in poverty reduction.

Food Security

The poverty situation has been exacerbated by widespread food insecurity, the problem is particularly significant at the household level. It is estimated that 55 percent of all smallholders are unable to meet minimum caloric requirements from own farms, and thus seasonal food deficits. Government is expanding the scope of agricultural interventions to ensure that farmers with less than 1.0ha gain access to credit, inputs and extension services so as to increase home production. Government also intends to increase adoption rate of fertilizer/hybrid maize seed technology from currently 30-40 percent to 60 percent of all smallholder households. Authorities are also reorienting research and extension to meet specific needs of smaller farmers. In addition, Government is intensifying nutrition intervention efforts to raise nutrition levels among the most vulnerable groups, including the expansion of feeding programs at health clinics and hospitals and strengthening of nutrition education programs.

Women and Gender Issues

Government recognizes women's sociological and cultural role in the context of poverty alleviation. Reaching, organizing and improving the lot of women have become integral to Malawi's development goals. There has been increased support to organizing women's groups to boost their access to technical information and credit in agriculture and smallscale enterprise sectors. A strong institutional framework has been developed with the establishment of the National Commission for Women and a special WID Department within the Office of the President and Cabinet. Several ministries have established WID programs, including Ministries of Agriculture, Community Services and Local Development.

Environment

Given the central role of natural resources in poverty alleviation and the economy, the Government has become increasingly concerned about environmental protection and natural resource management. The rapid population growth and the low productivity of existing agricultural technology have led to an increasingly unsustainable demand on land and forest resources, evidenced by the growing soil erosion rates, declining soil fertility, and widespread deforestation. Other environmental problems include increasing scarcity of potable water in certain areas, water degradation, and over-fishing in Lake Malawi.

It is Government's policy to strengthen management of natural resources, with emphasis on indigenous forest management, afforestation, fisheries and soil conservation. Government was supposed to finalize a National Environmental Action Plan in June 1994. Policy reforms to be implemented from 1994/95 onwards include (i) frequent adjustment in fuelwood rates and urban and district water tariffs, (ii) stricter enforcement of estate conservation and afforestation covenants, (iii) strengthening of regulatory framework for pesticide use and industrial pollution, (iv) development of new soil conservation measures, and (v) institutional strengthening in environmental policy formulation.

Annex III summarizes the adjustment policies to be carried out during the 1993/94-1995/96 period and their time frame.

7. Summary and Conclusions

Introduction

Since 1981, Malawi has been implementing a broad program of macroeconomic adjustment and structural policy reforms supported by financial and technical assistance from the World Bank, International Monetary Fund (IMF), and bilateral and multilateral donors. This has been in response to the deterioration of the Malawi economy mainly due to sharp increases to import prices, severe droughts, and rising transport costs caused by disruption of the rail route to the sea through Mozambique.

SAPs have implications not only for domestic agricultural production, but also for investment flows, changing agricultural comparative advantage, as well as trade and food security, both on a national and regional basis. As part of the effort to address regional trade issues, this study analyzes the existing structural adjustment programs in Malawi to provide comparative information on liberalization efforts affecting mainly trade and agriculture. Similar studies have been conducted in South Africa, Swaziland, Zambia, and Zimbabwe.

Macroeconomic Policy Implementation and Performance

During the 1988-1991 period, the major macroeconomic objectives targeted had been achieved to a large degree. The average rate of growth had increased significantly, inflation rate had decelerated substantially, while the external current account deficit had been reduced in line with program objectives. Regarding structural policy implementation, the import liberalization program had been completed, while significant progress had been made in the reform of the tax system, the restructuring of parastatal enterprises, and in expanding the role of market forces in resource allocation.

Implementation of the adjustment program during the 1991/92-1992/93 period was seriously hampered by exogenous developments and the outbreak of political and labor unrest which led to substantial deviations from the program objectives and targets. Among the exogenous factors was the severe drought, which affected all of Southern Africa, leading to a significant fall in Government revenue, and a large increase in expenditure on emergency food and related social services. At the same time, donors decided to suspend nonhumantarian balance of payments assistance due to concerns related to governance. Furthermore, the fiscal and external funding situation was aggravated by the outbreak of social and labor unrest, which was temporarily addressed by the granting of substantial wage increases and the initiation of a process of political reform. These factors were, in addition, exacerbated by the continued deterioration of the terms of trade. As a result of the above developments, real GDP declined in 1992, inflation accelerated, and the fiscal and financial accounts deteriorated significantly.

Despite the difficult political and external environment, the authorities maintained the external reforms put in place between 1988-1991 and continued, though at a significantly reduced pace, the implementation of many sectoral and structural reform measures.

A revised macroeconomic framework for FY 1993/94 was prepared in 1993. While virtually all measures incorporated in the 1993/94 macroeconomic program have been implemented, attainment of some of the program targets was complicated by unanticipated developments. These developments included new expenditures required to fund transitional political arrangements and institutions, and the inevitable outlays related to forthcoming elections. In addition, after a period of restrained wage bargaining, labor unrest erupted, seeking in part, benefits from the changed political circumstances and political liberalization, resulting in substantial wage increases. The macroeconomic framework was, thus, revised again.

Sectoral Policy Implementation and Performance

Progress was made in many areas in the implementation of sectoral reforms. In the agricultural sector, reforms continued with the view to improving food security, smallholder incomes, and efficiency of resource use. Restrictions on smallholder production of high-value crops are gradually being lifted, and access to high yielding inputs was further expanded. Private sector participation in marketing and distribution of agricultural products, including cotton and tobacco, and imports was also expanded

In 1992, business registration and land lease procedures were streamlined with the view to eliminating initial barriers to entry and enhancing investment. Expansion of domestic financial institutions into wholesale banking (e.g. INDEBANK) has increased competition in the domestic banking sector. The Post Office Savings Bank (POSB) has been restructured into a Malawi Savings Bank.

A cornerstone of the parastatal sector reform, the restructuring of the Agricultural Development and Marketing Corporation (ADMARC), has been largely completed with the sale of two subsidiaries and partial divestiture in two others during 1991 and 1992, a return to net profitability during the past 5 years, and the transfer of ADMARC's investment portfolio into the ADMARC Holding Company in August 1993. To support human resource development, the Government has maintained increasing expenditure shares for health and education, expanded child spacing activities, and stepped up support for institutional strengthening in the social sector.

Table 6 summarizes the main policy reforms and their progress or status.

Table 6: Summary of Main Policy Reforms and their Progress in Malawi

Policy Reform	Progress/Status
MACROECONOMIC POLICIES:	
Trade Policy	
Import liberalization	Completed 1992
Foreign exchange allocation	Removed in 1991 for all imports for narrow list of luxury items
Import/export licensing	Simplified, licenses granted within 2 weeks after fulfilling all formalities 28 commodities left on list of import licensing 13 commodities left on list of export licensing
Tariff Reforms	
Custom duty	10 percent on average for imports from COMESA - 40 percent on average for imports from other countries
Surtax	20 percent on average for most items
Export incentives	See Investment incentives
Fiscal Policy	
Tax reforms	• Began 1987 • Tax base broadened • Income tax collection strengthened in 1990/91 • Surtax base broadened in 1991/92 • Poll tax removed 1994
Government expenditure	Restrained through: • freeze on filling vacancies • cuts in non-wage spending ceilings • strict enforcement of expenditure monitoring procedures • reduction of fertilizer subsidies
Public sector management review	Completed 1991

Table 6: Summary of Main Policy Reforms and their Progress in Malawi

(continued)

Policy Reform	Progress/Status
Parastatals	Operational and financial status improved through restructuring, privatization and divestiture
Monetary Policy	
Financial intermediation	21 main financial institutions
Domestic resource mobilization	M1 and M2 in relation to GDP ranges 8-19 percent
Interest rates	Liberalized 1987
Exchange rate	Flexible exchange rate pursued since 1980s • Malawi Kwacha floated against US$ in February 1994. • US$ 1.00 = MK 15.3 as at mid-Jan. 1995
Inflation	35 percent as at mid-January 1995
Investment Incentives	
Corporate/company tax	35 percent for residents 40 percent for non-residents
Withholding tax	5 to 15 percent
INCENTIVE SCHEMES	
General incentives	• 40 percent allowance on new buildings and machinery • 15 percent allowance for investment in designated areas • Up to 20 percent allowance for used buildings and machinery • 50 percent allowance for qualifying training costs Allowance for manufacturing companies to deduct all operating expenses incurred up to 18 months prior to start of operation

Table 6: Summary of Main Policy Reforms and their Progress in Malawi (continued)

Policy Reform	Progress/Status
General incentives (continued)	Indefinite loss carry forward to enable companies take full advantage of their tax allowance Duty free importation of heavy commercial vehicles Provision for duty remission on importation of capital equipment
Additional incentives	
Exporters	• 12 percent tax allowance on export revenues for nontraditional exports • 25 percent transport tax allowance for nontraditional exports for international transport No value-added tax Duty drawback scheme on imports of raw materials and packaging materials 90 percent retention of forex for traditional exporters and 100 percent for nontraditional exporters
Export Promotion Zones	In addition to the above: • 15 percent corporate tax • No withholding tax on dividends
Manufacturing in Bond	In addition to the above: • Duty free importation of raw materials and capital equipment • No excise duty on new materials and packaging materials made in Malawi
Horticultural producers	100 percent duty free importation of raw materials and equipment for those exclusively engaged in horticultural production for exports
Tourism	Importation of hotel implements at concessionary rate of duty

Table 6: Summary of Main Policy Reforms and their Progress in Malawi

(continued)

Policy Reform	Progress/Status
FOOD AND AGRICULTURAL SECTOR POLICIES	
Farm Level Policies	
Production quotas	Only tobacco production is restricted through a quota system Smallholders allowed to grow burley tobacco since 1990/91 season
Input subsidies	• Being phased out • 5 percent on average for smallholder fertilizer in 1994/95 season and to be completely phased out (0 percent) in 1995/96 • Phasing out of seed subsidies starts 1994/95
Credit	Malawi Rural finance Company (MRFC) established October 1, 1994 and has taken over responsibility for smallholder credit • MRFC charges 40 percent interest rate • Commercial banks charge 36 percent interest rate • Estates obtain credit mainly from commercial banks
Input distribution	• Production and marketing of maize seed liberalized in 1993/94 • Import and distribution of fertilizers liberalized in May 1993
Research	• High yielding hybrid maize varieties (MH17 and MH18) developed, and released in 1990/91
Land reform	• Land rents increased from MK10/ha to MK30/ha • Land Act amended to ban further transfer of customary land to estates

Table 6: Summary of Main Policy Reforms and their Progress in Malawi

(continued)

Policy Reform	Progress/Status
Market Level Policies	
Parastatal trading	• Divestiture of ADMARC started in 1986 and has stayed on course • Memorandum of Understanding signed between ADMARC and Government to enable ADMARC operate as buyer and seller of last resort
Output marketing and pricing	• Agricultural produce markets (except for cotton and tobacco) liberalized since 1987 • Marketing restrictions for cotton lifted in 1991 • Tobacco marketing liberalized in 1994 • Private exports of groundnuts, beans & pulses unbanned in 1994 • Only maize exports are restricted because of its strategic importance • Progressive decontrol of produce prices, Government sets only smallholder maize prices
Strategic Reserves and Food Security	• Government, through ADMARC, operates a Strategic Grain Reserve which can hold up to 180,000 tons • SFFRFM operates a fertilizer buffer stock scheme of 90,000 tons
Labor Policies	
Ethnic Quotas	Not applicable
Business Visa/Work Permit	Take 4-6 months to process
Wage Policies	Law to review wages every 24 months or when inflation is 20 percent passed in 1992 Two-tier minimum wage system introduced in July 1994
Minimum Wage Rates	MK3.55/day for Cities MK3.00/day for other areas
Price Controls	Prices of only 3 commodities controlled: fuel (petrol, diesel and paraffin), fertilizers, and motor vehicle spare parts

Table 6: Summary of Main Policy Reforms and their Progress in Malawi

(continued)

Medium-Term Strategy

Malawi's economy remains fragile, narrowly based and lacking key social services and infrastructure. After more than a decade of stabilization and adjustment programs, the structure of the Malawi economy is still dominated by the production and export of a limited number of agricultural crops and the associated processing and distribution of these crops. Despite the substantial progress in deregulating the economy and creating a more conducive climate for the private sector, the development of the private sector and the supply response have remained below expectations, constrained in part by the monopolistic structures in production and distribution. Furthermore, the economy continues to be adversely affected by recurrent droughts and transport bottlenecks that seriously reduce its competitiveness.

Given these structural problems, the adjustment strategy is to place greater emphasis on policies and structural reforms that would promote a greater supply response, accelerate economic diversification, raise average productivity across all sectors, enhance domestic competition, and improve external competitiveness. Agriculture will continue to be a major source of growth and employment provisions and subsistence for some 80 percent of the total population as well as and the main source of raw materials for the manufacturing sector. The major challenge in this sector will be to improve productivity in the estate and smallholder subsectors, while vigorously promoting diversification out of tobacco and maize production.

Growth in the manufacturing sector is expected to be generated by the liberalization of the exchange system, the rationalization of the external tariff, and the growth of output in the agricultural sector. Additionally, diversification of manufacturing output and increasing exports of manufactured goods will also depend on the reduction in transport costs and a substantial broadening of the ownership base. The continued development of human resources and improvements in the social and physical infrastructure will also constitute critical elements of the development strategy.

Annex I
Malawi: Economic Structure

Economic Indicators	1989	1990	1991	1992	1993
GDP at market prices MK m	4,388	5,079	6,144	6,669	8,918
Real GDP growth ‘96	4.3	4.8	7.8	-7.9	9.3
Consumer price inflation ‘96	12.5	11.8	12.7	22.7	23.5[b]
Population m	7.98	8.40[c]	8.70[c]	9.02[c]	9.3[c]
Exports fob $ m	269	412	476	396	311
Imports fob $ m	251	304	374	391	308
Current account $ m	-138	-64	-194	-223	-118
Reserves excl gold $ m	100.3	137.2	153.2	40.0	28.7
Total external debt $ m	1,424	1,584	1,675	1,699	1,849[b]
External debt-service ratio ‘96	30.3	23.7	25.0	24.3	26.0[b]
Tobacco production m kg	86.1	101.2	118.5	136.1	122.4
Exchange rate (av) MK:$	2.760	2.729	2.803	3.603	4.403

Origins of gross domestic product 1993	% of total
Agriculture	37.6
Manufacturing	13.0
Utilities & construction	6.2
Transport & distribution	17.3
Government services	13.6
Other	12.3
GDP at factor cost	100.0

Components of gross domestic product 1993	% of total
Government consumption	16.9
Private consumption	78.1
Gross fixed capital formation	10.7
Change in stocks	2.2
Net exports of goods & services	-7.8
GDP at market prices	100.0

Principal exports 1993	$ m
Tobacco	208.7
Tea	34.8
Sugar	19.1

Principal Imports 1990	$ m cif
Industrial Inputs	208
Plant & equipment	76
Transport equipment	73
Commodities	66
Consumer goods	57

Main destination of exports 1992	% of total
Germany	20.6
Japan	14.0
USA	13.0
UK	7.9
South Africa	6.0

Main origins of Imports 1991	% of total
South Africa	33.2
UK	7.4
Japan	7.1
Germany	6.0

Composite price index, 1980=100. [b] EIU estimate. [c] Year-end, excluding Mozambican refugees.

Source: Economic Intelligence Unit (1994)

Annex II
Summary of policy reforms and action taken

Policy Reform	Action Taken
MACROECONOMIC POLICIES: **Trade/External Sector Policy**	
Implement final stage of import liberalization covering non-industrial equipment and certain consumer products for which there idomestic competition.	Implemented
Remove the requirement of prior approval of foreign exchange for all imports except for a short list of items satisfactory to IDA.	Implemented
Simplify import/export licensing (licenses obtained within 2 weeks)	Implemented
Reduce range of commodities requiring export (13 commodities remaining on list of export licensing)	Ongoing
Develop and initiate implementation of duty drawback system for exports	Implemented
Initiate export credit guarantee scheme	Implemented
Review tariff structure and reduce levels	Implemented
Fiscal Policy	
Maintain fiscal deficit for FY 90/91 at levels satisfactory to IDA	Implemented
Expand surtax base to include certain services and utilities at appropriate rates	Implemented
Reduce surtax exemptions and suspensions in phased manner	Implemented
Implement modified tax system on fringe benefits	Implemented
Reduce direct and indirect tax rates	Implemented
Rationalize custom duties to minimize level of protection	Implemented
Strengthen government audit capabilities to improve tax compliance	Implemented
Revise income tax structure, including rates and depreciation policy	Implemented
Strengthen expenditure control process in line ministries	Implemented and Ongoing

Policy Reform	Action Taken
Review expenditure priorities and revise expenditure and allocations to meet sectoral targets	Implemented and Ongoing
Review public sector management policies	Implemented
Develop restructuring plan for Malawi Railways	Implemented
Facilitate privatization of WICO (WICO is now privatized)	Implemented
Monetary Policy	Implemented
Harmonize the movements of the discount rate and the auction rate for Reserve Bank of Malawi bills	Implemented
Decontrol interest rates	Implemented
Revise Reserve Bank of Act to reflect reforms and present to parliament	Implemented
Maintain exchange rate at levels satisfactory. Malawi to IDA. Kwacha now floated against the US Dollar since February 1994	Implemented
Finalize restructuring plan for Post Office Savings Bank	Implemented
Establish Technical Committee to facilitate development of capital markets	Implemented
Investment/Industry Policies:	
Introduce new Investment Policy Statement	Implemented
Simplify procedures for company formation	Implemented
Eliminate industrial licensing requirement	Implemented
Streamline and accelerate procedures for land transfer	Implemented
Establish investment promotion agency	Implemented
Expand access to credit for smallscale enterprises	Ongoing
FOOD AND AGRICULTURAL SECTOR POLICIES:	
Output Prices	
Gazette a two-payment price system for smallholder tobacco, with preplanting price of not less than 45 percent of a rolling 3 years average auction prices, and a second payment at the end of the marketing season.	Implemented

Policy Reform	Action Taken
Continue annual price review and submit recommendations of the review to the Bank for comments at least 21 days before the announcement of revised prices.	Implemented
Output Marketing and Input Distribution	Implemented
Increase the margin provided at ADMARC receiving markets to at least 20 percent, increasing the number of receiving markets to 35.	Implemented
Differentiate fertilizer prices to provide a trading margin of at least 5 percent for a minimum of 200 kg purchased from ADMARC receiving markets, and allowing bonafide groups of smallholders (or agents appointed by such groups or by ADMARC) to buy fertilizer at the differentiated price for their own use or for selling to other smallholders.	Not implemented
Conduct a study to identify ways to facilitate participation by private sector in seed cotton marketing.	Not carried
Allow private sector's participation in seed cotton marketing.	Implemented
Fertilizer Procurement and Financing	Implemented
Continue preparation of 5-year fertilizer requirement projection.	Implemented
Introduce quarterly payments of budgetary subventions to SFFRFM for fertilizer subsidies due from Government.	Implemented
Complete and submit to IDA for review a study to improve management of SFFRFM as may be necessary.	Implemented
Expand supply of fertilizer in small packets for 25kg packets, 10kg and 15kg packets discontinued.	Implemented
Maintain economic rate of fertilizer subsidies at a level not exceeding 30 percent and total subsidy subventions at no more than 2 percent of total Government expenditure in 1990/91.	Implemented
Reduce economic rate of fertilizer subsidies to levels not exceeding 25 percent in 1991/92 and 20 percent in 1992/93, and total subsidy subventions to not more than 1.6 percent of total government expenditure in 1991/92 and 1.3 percent in 1992/93.	Implemented
Rationalization of ADMARC Funding and Functions	Implemented
Continue ADMARC's divestiture program.	Implemented
Implement agreement between ADMARC and Government MOU only signed in under which the Government will take over the Dec. 1993, implementing-financing of ADMARC's functions related to action progress thus Government's development of food security objectives.	Uncertain

Policy Reform	Action Taken
Set prices of crops handled by ADMARC so that to be verified on basis ADMARC's individual crop accounts at least of results for 3-year breaks even on average over a period of three period years.	Implemented
Implement a commission agent system for ADMARC due to low throughput and which can be made private and financially viable through such a system.	
Not implemented because market centers that are financially enviable lack interest on the part of traders.	
Maize Research Focus	
Shift maize research focus and budget and implement the 5-year action plan to develop high yielding flint maize.	Implemented
Cash Crop Allocation	
Amend tobacco growing and selling regulations to allow smallholders to grow burley tobacco under customary land tenure.	Implemented
License at least 5,000 smallholders to grow burley tobacco in areas where at least 75 percent of the farmers have land less than 1 ha.	Implemented
Reach agreement with IDA on the marketing system for smallholder tobacco.	Implemented
Design, announce and implement interim burley registration system for customary landholders in 1991/92.	Implemented
Allocate not less than 3.5 million kg of burley tobacco production quotas in 1991/92 to customary landholders (as registered quota holders in their own name) and which enable sale of production to any legal marketing entity.	Implemented
Issue official individual production quota certificates, recognized by any legal marketing entity, to 1991/92 customary land holders in a total amount of not less than 3.5 million kg of burley tobacco.	Implemented
Implement credit plan that provides full details concerning the provision of necessary credit to 1991/92 customary land burley tobacco growers.	Implemented
Implement plan that provides full details concerning the timely supply of fertilizer and seed sufficient to meet the requirements of 1991/92 customary land burley growers.	Implemented

Policy Reform	Action Taken
Adopt and announce second payment plan for 1990/91 customary land tobacco growers (who produced burley under the World Bank-sponsored pilot smallholder scheme) which provides sufficient resources to repay loans assumed for burley production.	Implemented
Legalize and publicly announce that customary landholder burley can be legally purchased by quota-holding burley estates, within the limits of those estates' own quotas.	Implemented
Implement public information program on timely collection and dissemination of commodity prices on ADD basis.	Implemented
Implement plan for monitoring the environmental impact of reforms implemented as part of ASAP.	Implemented
Issue individual smallholder burley production quota certificates for 7 million kg in 1992/93 recognized by any legal marketing entity.	Implemented
By September 1, 1992, design, announce and implement permanent burley registration criteria/procedures for customary land holders.	Implemented
For registered smallholders, legalize and announce marketing of smallholder burley both by estates, in addition to estates' own quota, and by other acceptable marketing entities in 1992/93.	Implemented
Permit smallholder purchase of burley seed from ATC, NSCM, ADMARC, and other legal entities in 1992/93.	Implemented
By 1 September 1992, complete evaluation of 1991/92 smallholder burley scheme including impact on beneficiaries.	Implemented
Land Allocation and Use	Implemented
Amend Land Act to halt transfer of land from customary areas to estates, except in areas of low population density and experimental farms beneficial to smallholders; and cases involving conversion of established customary rights to formal rights.	Implemented
Implemented (but with caveats)	Implemented
Amend Land Act to enable adjustment of estate land lease rent at intervals of not more than 3 years.	Implemented
Announce, through the official Gazette, an increased estate land lease rent of up to at least MK20/ha to be effective in April 1991.	Implemented
Implement a system to collect estate land lease rents through tobacco auctions.	Implemented

Policy Reform	Action Taken
Send bills to estates for the payment of increased rent of MK20/ha with effect from April 1991.	Implemented
Undertake a study to establish a basis for differentiating estate land lease rent according to land quality.	Not carried
Introduce differentiated estate land rents at a weighted average at least equal to the 1986 level in real terms.	Not implemented
Establish estate extension service as an autonomous trust body under the auspices of Tobacco Association of Malawi.	Implemented
Establishing of Woodlots	
Strengthen inspectorate staff of Department of Lands to enforce establishment of woodlots by estates, except in cases where estates are able to obtain fuelwood from forest plantations and private sources.	Not implemented
Food Security	
Initiate implementation of the UNDP-funded pilot schemes to best ways of targeting fertilizer subsidies and agricultural credit to the food deficit households; and locating the growing of burley by smallholders in areas where at least 75 percent of farm holdings are less than 1.0 ha.	Implemented
Ensure a higher rate of subsidy on high analysis than on low analysis fertilizers.	Implemented
Package at least 50 percent of fertilizer supplied by SFFRFM in bags of not more than 25 kg.	Implemented
Improve operational guidelines for SGR.	Implemented
Monitoring Social Impact of Adjustment	
Strengthen capacity to monitor and analyze impact of adjustment program on the poor.	Implemented

Annex III
Summary of Time Frame of Adjustment Policies, 1993/94-95/96

No.	Sector	Objectives and Policies	Strategies and Measures	Timing
1.	External Sector			
	a. Exchange rate and trade system	Maintain external competitiveness and encourage export diversification.	Further liberalize exchange system. Implement a market-based exchange system.	Last quarter of 1993/94 onward
			Abolish the negative import list with prior approval of foreign exchange.	Last quarter of 1993/94
			Successively remove the items from the list of goods subject to export controls.	1994/95 onward
	b. Tariff system	Minimize level of and dispersion in domestic protection.	Implement cascaded tariff structure with 15% average tariff rate and 35% maximum tariff rate.	1994/95-1995/96
	c. External debt	Improve profile of external public debt.	Limit contraction of debt to largely concessional long-term loans.	1994/95 onward
	d. Foreign investment	Promote foreign direct investment.	Maintain policy of free repatriation of dividends and profits of foreign investors.	Ongoing
			Develop a proactive policy to attract foreign investment	1994/95
	e. External reserves	Gross official reserves covering 2 months of imports by end-1994 and 2.5 months by end-1995.	Tight monetary and fiscal policies and liberal exchange system.	

No.	Sector	Objectives and Policies	Strategies and Measures	Timing
2.	<u>Public Finance</u>			
	a. Revenue	Restore the revenue/GDP ratio to the pre-drought level of about 19% by improving efficiency, equity, and administra-tion of tax system with technical assistance.	Complete move to unified surtax rate for all goods and services.	Ongoing
			Enhance pre-shipment inspection system by linking it directly to customs	1994
			Phase out industrial rebate option. Revisit the arrangement of bonded warehouse-storage with duty exemption.	1994/95
			Increase staffing and training of Tax Policy Unit in the Ministry of Finance, Customs and Excise, and Income Tax Department. Computerize databases for Income Tax and Customs and Excise Departments.	1994/95 onward
			Reduce tax arrears and deficiencies. Expand taxable base and increasingly include the informal sector and businesses in semiurban areas.	Ongoing
		Strengthen nontax revenue performance.	Maintain payments into Petroleum Stabilization Fund at levels at least equivalent to [1993/94] in real terms. Revisit the level of departmental levies and charges.	1994/95

No.	Sector	Objectives and Policies	Strategies and Measures	Timing
	b. Expenditures	Improve budgetary allocation process and expenditure control.	Develop and implement action plan to redress expenditure slippage and improve expenditure monitoring system.	1994/95 onward
			Review expenditure priorities in key economic and social sectors and revise expenditure allocations to meet intra-sectoral targets as well as inter-sectoral targets.	1994/95 onward
		Improve expenditure control.	Develop and implement Action Plan.	1994/95
			Introduce a tax-inclusive budgeting system.	1995/96 onward
		Ensure consistency of development and expenditure budget with resource availability.	Consult with World Bank on 3-year rolling PSIP, including parastatals, and share PSIP with donor community.	Ongoing
		Control the growth of civil service wages and salaries.	Census of civil servants.	September 1994
			Implementation of action plans.	December 1994 onward
			Freeze vacant posts, wages, salaries, and benefits until action plan is fully implemented.	Ongoing
		Reduction in subsidies.	Phase out fertilizer subsidy as agreed with World Bank.	1994/95 onward
			Sharp reduction in subsidies to parastatals following the restructuring of Malawi Railways to reach commercial viability.	1995/96 budget

No.	Sector	Objectives and Policies	Strategies and Measures	Timing
3.	Monetary Policies	Promote efficiency in the allocation of financial resources.	Enhance use of market-based monetary policy instruments (e.g., discount rate, reserve requirement).	Ongoing
		Achieve and sustain low rate of inflation consistent with the overall growth and balance of payments objectives.	Flexible monetary policy in close coordination with fiscal and exchange rate policies.	Ongoing
			Implement comprehensive modernization program in the Reserve Bank of Malawi including, introduction of management information system, reform of the payment and clearing system, adaption of bank supervision procedures to the new exchange system, and upgrading of the accounting system.	1994/95 onward
			Continue developing the securities market for Treasury and Reserve Bank bills by holding periodic auctions.	Ongoing
4.	Agriculture			
	a. Smallholder production	Improve smallholder access to credit.	Set up Malawi Rural Finance Company (MRFC) to expand seasonal credit system and deepen rural banking system.	1994/95
			Transform MRFC into a multi-purpose bank.	1994
		Raise productivity and income through expanding smallholder access to high value cash crops.	Expand licensing of smallholders to grow burley tobacco on customary land to 25 million kg.	1994/95

No.	Sector	Objectives and Policies	Strategies and Measures	Timing
	b. Estate production	Increase estate productivity through more efficient resource use.	Strengthen estate extension service and increase access to medium-term credit	Ongoing
			Analyze various options to modify current burley tobacco quota system.	1994/95
		Increase production and export potential for sugar.	Liberalize sugar marketing and review options for price liberalization.	1994 onward
	c. Land policy	Improve efficiency in land use through greater reliance on land pricing.	Establish a cost-effective monitoring system for agricultural land use.	1994
			Enforce land use covenants.	1994 onward
			Implement system of differentiated land rents on basis of an action plan.	1995
			Maintain land rents at least equal in real terms to the 1985 rate.	1994/95 onward
	d. Pricing and marketing	Encourage efficient smallholder production through appropriate producer price incentives.	Deregulate all smallholder crops with the exception of maize.	1994/95
			Shift from the system of fixed maize prices to a system of market determined prices within a fixed band.	1994/95 onward
		Encourage efficient use of fertilizer through appropriate pricing policy.	Phase out fertilizer subsidy as agreed with World Bank.	1994/95 onward

No.	Sector	Objectives and Policies	Strategies and Measures	Timing
			Implement fertilizer policy reform program and commercialize operations of the Smallholder Farmers Fertilizer Revolving Fund of Malawi.	1994/95 onward
		Encourage private sector marketing of smallholder inputs and production.	Remove all remaining marketing restrictions on agricultural crops. Starting with the immediate lifting of the ban on private trader participation in the groundnut market and maize export market.	1994/95
	e. Rural labor market	Enhance stability in rural labor market.	Implement Labor Market Action Plan, as agreed with the World Bank.	1994/95
	f. Food security and nutrition	Strengthen domestic food security, particularly for smaller farmers.	Restock Strategic Grain Reserve	1994/95
5.	<u>Industry, Finance and Energy</u>			
	a. Industry	Support development of small-scale and individual enterprises.	Establish and expand business areas in traditional housing areas and in high density modern residential developments.	Ongoing
			Review the functions and effectiveness of SME support institutions with a view to rationalize and commercialize their services.	1994/95-1995/96
		Accelerate industrial supply response and broaden ownership base.	Develop long-term strategies to redress industrial monopolies.	1994

No.	Sector	Objectives and Policies	Strategies and Measures	Timing
		Ease entry and exit.	Consolidate measures under Investment Promotion Act, such as access to land, facilitation of duty drawback scheme.	1994/95 onward
			Review restrictions on business activity by ethnic minorities.	1994
	b. Finance	Deepen financial markets and improve efficiency of financial intermediation and resource mobilization.	Support entry of new financial institutions.	1994/95 onward
			Identify ways to broaden ownership base of commercial banking sector and accelerate divestiture of public sector equity in commercial banks.	1994
			Complete implementation of restructuring plan for Post Office Savings Bank.	1994/95-1996/97
			Support the development of a Unit Trust Fund.	Ongoing
	c. Energy	Promote efficient investment in power sector consistent with overall expenditure priorities.	Consult annually with World Bank on ESCOM's investment program.	Ongoing
			Adjust electricity tariffs consistent with long-run marginal cost of production.	Ongoing
			Review household energy strategy and assess medium-term energy sector strategy.	1994/95-1996/97
		Promote efficient consumption of petroleum.	Review petroleum supply and procurement practices.	1994/95

No.	Sector	Objectives and Policies	Strategies and Measures	Timing
			Set prices for petroleum products to reflect full and timely pass-through of import and distribution costs.	Ongoing
6.	Infrastructure			
	a. Transport	Enhance efficient resource allocation and effective competition in the transport sector.	Revise Road Traffic Act, including deregulation of trucking tariffs and passenger fares, liberalization of sector entry.	1994/95
			Lift restrictions on direct imports of spare parts, equipment, second hand parts and vehicles.	1994/95
			Facilitate equal treatment of foreign and Malawian-owned operators with regard to payment of tariffs in foreign currency.	1994/95
			Remove price controls on spare parts.	1994/95
	b. Water	Expand service and strengthen financial viability in water supply.	Increase water board and DWSF tariffs to ensure financial viability.	Ongoing
		Improve water supply management	Rehabilitate boreholes and gravity-fed water supply, develop pilot scheme for small scale irrigation.	1994/95 onward
7.	Public Enterprises			
	a. Commercial parastatals	Improve operational and financial performance.	Implement restructuring plan for Malawi Railways and Lake Services.	1994/95
			Adopt Memorandum of Understanding between Ministry of Finance and ADMARC.	January 1994

No.	Sector	Objectives and Policies	Strategies and Measures	Timing
			Ensure that ADMARC's net use of seasonal commercial bank overdraft in any year will be zero by end year.	1994/95 onward
			Adopt action plan for privatization of selected commercial parastatals.	1995
			Strengthen DSB's monitoring functions.	1994/95 onward
			Review scope for transferring developmental parastatals from DSB to parent ministries.	1994/95-1996/97
	b. Treasury funds	Strengthen organizational framework.	Review scope for transforming selected Treasury Funds into Statutory Bodies.	June 1994
			Review scope for privatizing selected Treasury Funds.	End-1994/95
8.	Administration a. Local Government	Strengthen local government	Enhance the financial, managerial, and technical capacity of local governments to provide municipal services and infrastructure.	Ongoing
	b. Civil Service	Increase efficiency and effectiveness of the civil service.	Implement 5-year Institutional Development and Civil Service Reform program including: (i) installation of effective personnel information system and a civil service census; (ii) promulgation of the Public Service Act; (iii) introduction of forward budgeting system; and (iv) enhancement of managerial skills through training and consulting services by the Malawi Institute of Management.	1994/95 onward

No.	Sector	Objectives and Policies	Strategies and Measures	Timing
9.	Human Resources			
	a. Education	Enhance quality of education.	Increase the budgetary allocation for recurrent and development budget expenditures from 15 percent to 20 percent.	1994/95-1996/97
			Increase share of primary education in total education budget from 35 percent to 45 percent.	1994/95-1995/96
			Implement second phase of decentralization of Ministry of Education.	1995/96
		Expand services through improved cost recovery.	Raise fees at post-primary levels for greater cost recovery.	Ongoing
			Discontinue free provisions of exercise books and writing material to secondary school students.	1994/95
		Enhance private sector participation in financing of education.	Review scope for relaxing the regulations and construction codes for school buildings.	1994/95
	b. Health	Enhance quality of health services.	Increase recurrent expenditures to 9.1 percent of total revenue budget.	1994/95
		Improve efficiency of resource use and functioning of "outreach" services.	Increase relative funding of peripheral health services by 2 percentage points on average per year and simultaneously reduce recurrent expenditures for three major hospitals to 25 percent of the recurrent health budget.	1994/95-1996/97
			Implement cost recovery plan to achieve full cost recovery in private patient fees by April 1995.	1994/95

No.	Sector	Objectives and Policies	Strategies and Measures	Timing
	c. Population	Reduce population growth.	Incorporate population planning education in school curriculum.	Ongoing
			Expansion of family planning services including contraceptives in the Maternal and Child Health Program.	Ongoing
10.	Environment	Strengthen management of natural resources.	Complete the National Environmental Action Plan (NEAP) and start implementation of priority recommendations.	June 1994
			Strictly enforce afforestation and conservation covenants in estate land leases.	1994/95 onward
			Strengthen institutional framework for environmental policy framework.	1994/95
			Improve management of nonexclusive resources like fisheries and indigenous woodlands.	1994/95 onward
		Strengthen incentive framework for sustainable resource use.	Adjust fuelwood prices and urban and district water tariffs.	Ongoing
			Review regulatory framework for pesticides and industrial pollution.	1994/95
11.	Women in Development	Strengthen access to technical information and credit in the agriculture and small-scale enterprise sector.	Implementation of pilot studies for women's participation in small-scale income generating activities, technology dissemination, and credit provision.	Ongoing

No.	Sector	Objectives and Policies	Strategies and Measures	Timing
		Emphasis on women in all aspects of health care.	Adoption of appropriate manpower initiatives that emphasizes women, especially in family planning, and access and retention of girls in secondary education.	Ongoing

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